
annual report 2003 | 04
renewable
energy
partnerships
opportunities
Hydro Tasmania
the renewable energy business

contents

achievements 2003 | 2004

- Commissioning of $100 million Stage 2 of Woolnorth Wind Farm, making Woolnorth the largest wind farm in Australia (64.75MW)
- Continued prudent management of a prolonged dry inflow sequence
- Basslink cable-laying activities on schedule for link to become operational in November 2005
- Completion of a restructure of Hydro Tasmania into three interdependent lines of business to align with our strategic directions
- Successful conversion from oil to gas of the second 120MW generating unit at the Bell Bay Power Station
- Dam safety strategy to 2010 adopted
- Financial close and start of construction of the 66MW Cathedral Rocks wind farm project on the Eyre Peninsula in South Australia, Hydro Tasmania's first major development outside the State
- Interstate mini-hydro opened at Terminal Storage in South Australia with joint venture partner
- Adoption by the International Hydropower Association of Sustainability Guidelines developed by Hydro Tasmania for the planning, design and construction of major hydro projects
- Successful NEMMCO trial dispatched all hydro plants remotely from NEMMCO headquarters
- Record financial result of $35.5 million profit after tax, an increase of 5.7 percent over the $33.6 million of 2002/2003
- Record capital expenditure of $132.7 million
- Returns to the State of Tasmania of $80.3 million comprising:

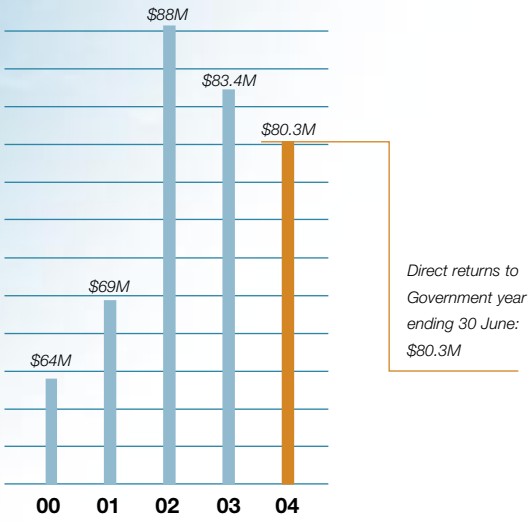
	$M
dividend	**43.6**
income tax equivalent	**32.9**
loan guarantee fee	**3.8**
total	**80.3**

chairman's review

It is important for any organisation to have a vision and a strategic plan, and as important to be able to seize the opportunities presented to pursue the vision and achieve the objectives of the plan. So it is with Hydro Tasmania.

With solid leadership and a consistent team effort, Hydro Tasmania is on the path to achieving our goal to be a world-renowned renewable energy business.

Direct Returns to Government

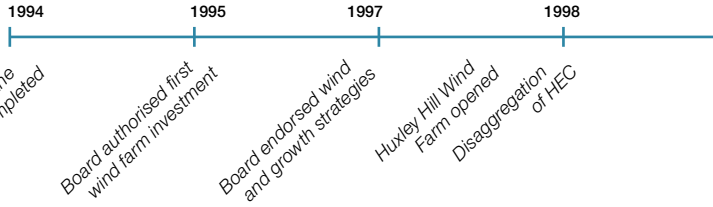


Our major challenge is to expand our expertise from that of a renewable energy generator to that of a trader as well, as we prepare for the next exciting phase in Hydro Tasmania's strategic plan – entry to the National Electricity Market via Basslink.

It has been another year of great achievement for Hydro Tasmania at a local, national and international level, with many highlights across all areas of the organisation.

Our growth has been aggressive but structured. Overall, we invested more than $130 million in our capital program, our largest ever investment and all well-targeted and well-delivered. In February, we completed Stage 2 of the Woolnorth Wind Farm, making it the largest wind farm in Australia, generating 64.75

Achievements Timeline



megawatts from its 37 elegant turbines. Stage 3, to be constructed over the next two years, will double that.

We also reached financial close on our first major interstate development, a joint venture arrangement with Spanish renewable energy company Corporacion Energia Hidroelectrica de Navarra (EHN) to construct, own and operate the 66 megawatt wind farm at Cathedral Rocks on the Eyre Peninsula in South Australia. This partnership demonstrated our commercial acumen and considerably enhanced the credibility of our business as EHN is one of the world's most experienced renewable energy developers, representing 30 percent of the installed wind energy generation in Spain and five percent worldwide.

We have now commenced the construction phase of the project and once completed it will provide our traders with early experience operating in the NEM prior to Tasmania joining the market in May 2005.

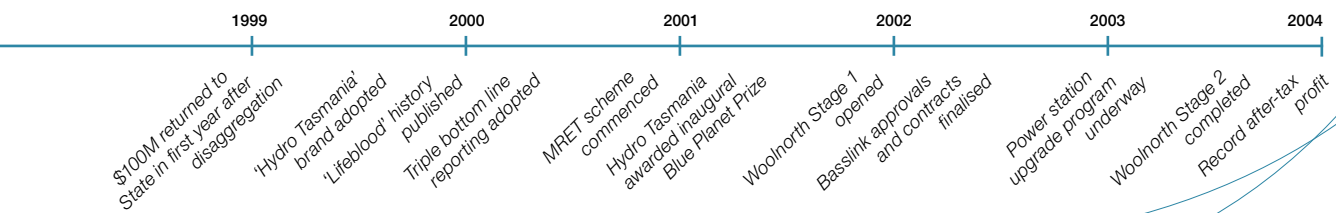
Other highlights for the year included:

- the laying by Pirelli of the first 98 kilometres of cable in the Basslink project, linking Tasmania to Victoria
- the official opening in June of the mini-hydro development at Butlers Gorge - the third mini-hydro built by Hydro Tasmania, adding enough extra hydropower into the system to service 800 Tasmanian homes
- refurbishment work on our hydro generating assets which will see a significant increase in output from the existing water supply

Chairman Peter Rae

- the opening of the extensions to the King Island wind farm, trebling the generation with two new larger turbines and the construction of the first Vanadium Redox Battery storage and delivery system.

For the sixth consecutive year, solid profit growth has been achieved, while at the same time committing to the record capital expenditure program. Profit after tax was up by 5.7 percent. We provided total returns to the State of $80.3 million, and our dividend payments to the State are commensurate with Hydro Tasmania being Tasmania's most important Government Business Enterprise.



Chairman Peter Rae, Federal Environment Minister Dr David Kemp, Tasmanian Energy Minister Bryan Green and CEO Geoff Willis

In his section of this report, Chief Executive Officer Geoff Willis outlines details of the restructuring of the organisation which was implemented on 1 April 2004, and advises of risk management measures and our preparations for entry into the National Electricity Market.

In my commentary for this report, I would like the opportunity to review my time as Chairman of the Board of Hydro Tasmania.

A retrospective

It has been a decade of significant challenge, great opportunity and massive change for our organisation. I have been privileged to be Chairman for this period. I was appointed to the Board as a director in 1992, and to the chairmanship the following year. It has been a decade which has seen Hydro Tasmania make the transition from a Tasmanian-focused hydro construction and generation commission, with a business based on borrowing for new construction programs, to being a corporation operating on a fully commercial basis, using internally generated funds for new development projects; from rebutting claims of being an environmental villain to recognition as a champion of renewable energy development on a truly sustainable basis. For the second time in Tasmania's history, "the Hydro" was an important driver behind the State's economic revival – the growth vehicle for the State's economy. Our commitment to major capital expenditure in associated energy projects involving more than $2 billion, including playing a pivotal role in encouraging gas supplier Duke Energy to pipe gas to the State, provided renewed confidence to business and government in Tasmania. This has helped set the scene for the State's current positive economic progress.

Economic activity is based on confidence in making investment decisions. Its size and standing mean that Hydro Tasmania has an important leadership role to play in Tasmania. This needs to be part of the strategic planning and investment decisions of the Board of Hydro Tasmania.

I have enjoyed participating in many significant events in the proud history of "the Hydro". These have included the commissioning of the last hydro power station of the construction era, Tribute, in May 1994; the preparation for change from a monopoly generator and supplier to a regulated operator about to enter the fully competitive national market; the disaggregation of the former Hydro on 30 June 1998 into three separate businesses (Hydro Tasmania, Transend Networks and Aurora Energy); the commencement of the second construction era with the opening in March 1998 of the first wind farm on King Island; the arrival of gas; the building of the Woolnorth Wind Farm; commencement of our first interstate generation, through mini-hydro and a wind farm in South Australia; and the completion of the contractual agreements for the Basslink project to proceed and become the longest undersea power cable connector in the world.

We have won the Blue Planet Prize for the world's best planned new hydro project and have been selected to prepare the Sustainability Guidelines and compliance protocols for the International Hydropower Association (IHA) and the World Wind Energy Association (WWEA).

The challenges of this journey for all involved have been massive.

Fundamental to our success has been the development of the vision of where we aspire to go and how we are best able to achieve that aspiration.

When the construction era concluded, a workforce which once numbered over 5000 was downsized to 1600, sensitively, respectfully and without industrial relations problems that can arise if such activity is mismanaged.

It was during this time that the organisation considered its future. The initial question became 'could it redevelop itself as a growth vehicle for Tasmania?' The answer was 'yes' and attention turned to how to achieve this – how to develop the vision.

From a 1993 decision to prepare the business case we started into wind farm trial development in 1995. In 1997, the decision was taken to pursue major development of Tasmania's world-class wind resources, the full extent of which required another major project to be in place, the Basslink interconnection with mainland Australia. We also developed a program for the refurbishing and upgrading of our hydro power stations to add significant extra capacity in the system.

Disaggregation of the former, vertically integrated Hydro-Electric Corporation in 1998 enabled Hydro Tasmania to focus fully on its growth goals, to adopt and think through the vision of being a world-renowned renewable energy business. We focused also on how to arrive where we are today, domestically about to enter the National Electricity Market but with a Consulting business which operates world-wide and has doubled in size since disaggregation.

The experience Hydro Tasmania has gained as both an operator and a consultant gives it a real advantage in pursuing its consulting opportunities. The recognition by the World Bank of this special qualification is a signal event in our recent history.

Innovation and leadership

One of the most exciting developments, and the place where our wind energy story really began, is with the King Island experiment. This innovative work now sees us as world leaders in overcoming the problems of intermittency and variability which exist for the provision of renewable energy solutions to the power needs of remote communities.

The innovation does not stop there. In July 2003 Hydro Tasmania announced a collaboration with the University of Tasmania to develop a Renewable Hydrogen Research Program. The program aims to establish Tasmania in a lead position in developing renewable hydrogen applications. With the planned installation of hydrogen facilities on Cape Barren Island and other battery storage trials on Flinders Island, we will be in a unique position to develop forms of energy storage that can then provide what the world requires – small stand-alone, off-grid, renewable electricity supply.

Our pioneering work on King Island is an example of this - a stand-alone renewable energy generation system utilising wind and solar energy in conjunction with a method of storage and delivery to overcome variability and intermittency and capable of being linked to desalination to provide the energy and water needs for islands and remote communities. Almost half of the island's electricity is now generated from renewable resources. What started as an experiment is now providing a significant renewable energy supply for King Island, bringing with it a reduction in diesel fuel consumption of around one million litres each year and eliminating 4,600 tonnes of greenhouse gas emissions.

The development of an innovative battery system, the Vanadium Redox Battery, is a key factor in increasing the proportion of wind energy able to be used for power supply, solving the problem of wind energy variability and system reliability. The facility stores excess wind energy and releases it back into the system in a controlled way – the first commercial application of the battery in Australia. It also earned Hydro Tasmania Australia's first Renewable Energy Certificate for wind generation.

Hydro Tasmania pioneered the project but it would not have been possible without funding support from the Australian Government, and in particular, Environment Minister David Kemp, the Australian Greenhouse Office and the Tasmanian Office of Energy, Planning and Conservation.

The vision is to then link this with desalination to provide fresh water, creating an example of how we can contribute to providing the first two components of WEHAB in the international community's fight against world poverty - Water, Energy, Health, Agriculture and Biodiversity, which was the objective agreed at the World Summit on Sustainable Development in 2002.

Structuring the business for the future

Enormous changes have been required to turn the organisation into a major business operating along fully commercial lines. Our success in this is emphasised by the fact that Hydro Tasmania would be a top 100 company in Australia if it was publicly listed. Our business is constantly evolving to reflect the changing environment, restructuring again during the past year into three defined business units – Energy, Renewables Development and Consulting – to meet the challenges of the new era we are set to enter.

"The Hydro's" proud history includes achieving excellence in dam construction and generation of

Woolnorth Wind Farm

hydropower. Now through hydro and wind generation, and research and development of new energy sources, we prepare to enter the National Electricity Market as a trader. That is what the Basslink undersea power cable enables Hydro Tasmania to become – a trader in the market, and not just an importer and exporter of energy across a medium. The wonderful synergy between water and wind enables that role to be achieved even more efficiently.

Recognition of sustainability

A fundamental has been to build a sustainable business. To this end we have achieved much, receiving recognition nationally and internationally. Winning the inaugural Blue Planet Prize in 2001 for leadership in environmental sustainability in renewable energy development for our King River Power Scheme on Tasmania's west coast, leadership in sustainability guidelines, national and international leadership in renewable energy promotion and development, and the quiet satisfaction when I was invited by the World Bank to represent the renewables industry during its Energy Week in Washington this year were hallmarks of this.

This recognition has led to other opportunities, such as being invited to draft the International Hydropower Association sustainability guidelines for large-scale hydro development, and those for the World Wind Energy Association. This enhances the leadership position of Hydro Tasmania in the world renewable energy industry and our special capacity in environmental management. In Bonn, during the Renewables Conference attended by 154 nations, I had the opportunity to convene the meeting for the formation of the International Renewable Energy Industry Alliance. The IHA, WWEA and International Solar Energy Society in combination will provide a strong voice for the practical development of the industry. Encouraging these organisations, particularly the IHA, to look at their roles in environmental sustainability and sustainable development, and not just as organisations building dams and providing

electricity, has been a major achievement of Hydro Tasmania. As a result, the World Bank has expressed interest in collaborating with Hydro Tasmania on the development of sustainable hydro and water management projects.

In December in Milan, Italy, Australia presented the nation's innovative response to the challenge of global warming. Hydro Tasmania was instrumental in organising that presentation, involving Minister Kemp and the then Tasmanian Deputy Premier Paul Lennon, and also participated by speaking, chairing and providing the secretariat for the event.

As well, I was invited to lead a team of eight people to participate in a Renewable Energy Mission to the United States, sponsored by the Australian Academy of Technological Sciences and Engineering, earlier this year. It was highly successful, leading to agreements with the National Renewable Energy Laboratory in Denver, Colorado, and also with the United States Department of Energy under the Climate Action Partnership. Our hydrogen expert was selected by the US to form part of that country's review team looking at its hydrogen program.

At the national level we have again played a major role with REGA (Renewable Energy Generators of Australia) for which we have provided the secretariat and I have continued to chair, along with the ROUNDTABLE, which is the federation of the renewable and sustainable energy associations of Australia.

These initiatives clearly demonstrate that Hydro Tasmania is leading the renewables development industry, and there is recognition now, particularly in the United States, that this industry represents a major growth area and a solution to the problems of the world's poor regions.

The energy White Paper

It is disappointing then that our own Australian Government in its White Paper presented in June has not seen it the same way. It did not provide the necessary support to see investment in this industry continue into the long term with an extension of its Mandatory Renewable Energy Target scheme. There is a genuine role for renewables in decreasing the release of greenhouse gases into the environment. It is very clear that every country in the world must urgently take steps to find ways to substantially reduce greenhouse gas emissions from the use of fossil fuels, and develop new renewable energy sources so as to increase the renewable sources in the total energy mix.

It is a challenge that Hydro Tasmania is willing to take on and play its part. The challenge is for others in industry and government to do likewise.

Tasmanian community commitment

During the year, we completed our Cultural Heritage Review, which formally documented Hydro Tasmania's cultural heritage - every power station and personal stories associated with their history. There is a wealth of heritage to be found in our engineering systems and infrastructure and also the social history of the towns and villages that built our hydro network. The review is a significant documentation of the assets and their history, and will assist in their management and preservation.

Throughout its history of almost 100 years, Hydro Tasmania and its predecessors have built much more than dams, power stations and now wind farms. By

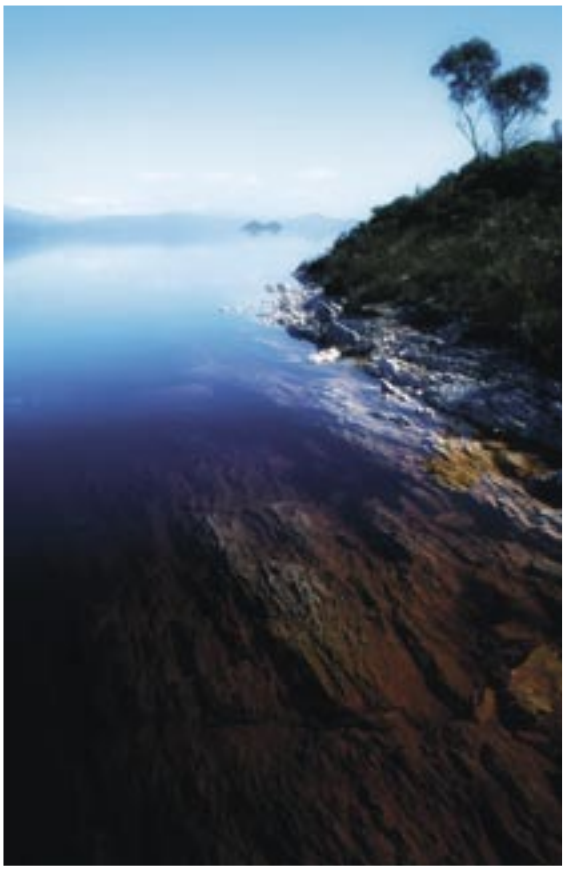
developing its people, Hydro Tasmania has created an enormously efficient workforce and has made a major contribution to the social, economic and community fabric of the State – a profound impact on the Tasmanian culture. That has evolved during that 100-year history, and continues today. An example is the way the local community has embraced the new technology and concepts involved in the Woolnorth Wind Farm development to the point where it has become a community icon.

Hydro Tasmania takes its responsibilities seriously. While pressing ahead for international recognition, we will not forget that our home is in Tasmania. We are a part of the Tasmanian community, we are proud of that and we work hard to retain our reputation as the State's principal corporate entity.

Board and governance

I would like to acknowledge the contributions of all Board members both for their hard work and their commitment throughout the year in dealing with a broad range of issues. I would like to thank former director Dr Nora Scheinkestel for her service to Hydro Tasmania and welcome new board member Dr David Crean, former Treasurer in the Labor Government. Dr Crean attended his first meeting in the month immediately after the financial year for which we are reporting, and his experience will make a great contribution to our organisation, particularly as we face the challenges involved with both growth and trading.

To conclude, the corporate governance review was completed during the year. It took much longer than was anticipated, due largely to the sustained growth within the organisation, and the need for sophisticated and comprehensive risk management strategies to be developed and employed as part of the review.



Lake Pedder looking towards Camel Island. The brown-stained water is characteristic of lakes in Tasmania's south-west

The result of the review provides an excellent framework for the Board to operate and plan its strategies and policies to successfully take Hydro Tasmania into the future.

I also take the opportunity to thank all the staff of Hydro Tasmania for their help and enthusiasm to build both our business and our standing in the world of renewable energy. They have every reason to feel proud to share the vision and the achievements. I know that I do – it has been my privilege for which I am grateful.

ceo's report

Hydro Tasmania has progressed strongly and diligently over the past twelve months, building on the solid foundation laid in recent years. It was a year of consolidation and yet one of significant growth, buoyed by a growing Tasmanian economy and a national energy market encouraging renewable energy projects.

In terms of consolidation, the major focus was on developing the internal systems, processes and settings in readiness for our entry next May into the National Electricity Market and our preparations for operating in a Basslink environment.

This included the establishment of a new organisational structure which will underpin these key new directions. At the same time, we continued to find avenues for growth through our investments in renewable energy and through our Consulting business, with our people and their expertise in great demand at a local, national and international level.

Financial performance was strong, with energy sales revenue growing by 6.8 percent to $378.3 million, and profit after tax at the record level of $35.5 million.

Strengthened organisation preparing for national market entry

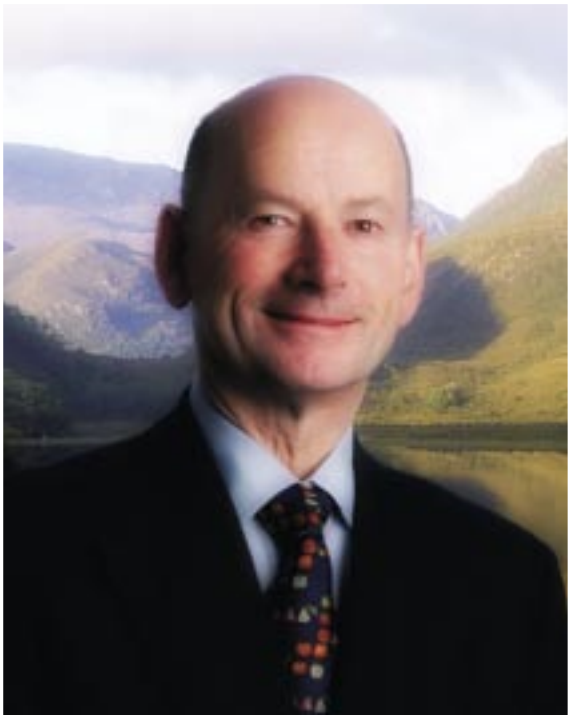
The new structure defines our three interdependent lines of business – Energy, Renewables Development and Consulting. This, we consider, formalises what had been evolving over time and reflects the maturity of the business. While "lifting the bar" on Hydro Tasmania's managers, it will enable greater accountability and flexibility to better position Hydro Tasmania to take advantage of the opportunities for the new era Hydro Tasmania is set to enter, and to be open to the market opportunities more broadly. The structure was adopted from 1 April 2004, giving the businesses one full year to operate in this mode before NEM entry. We are confident that it will enable each business to progress, adapt and meet the challenges and opportunities ahead.

Trading

Good progress was made on getting the organisation geared for NEM entry from a technical and technological point of view. It has required a great level of skill, commitment and vision from our dedicated team of people to design the systems that will allow us to initially communicate and then trade effectively in the national market. Part of the preparation has involved the design of a system which allows our traders to 'shadow' trade, to simulate trading in the market, where the requirement will be to trade electricity in five-minute intervals. The simulation, based on real trading in the market, allows us to test pool trading systems and strategies. This level of commitment by Hydro Tasmania to prepare for NEM entry will ensure our pool traders have every possible opportunity and expertise for our 'real' market debut in May 2005. We are pleased to now be an integral part of the NEM forecasts for the annual Statement of Opportunities which assesses electricity demand and supply in the market.

World-class system of risk management

Managing our system under a Basslink scenario will require us to work to tighter deadlines, and at a pace which will test our flexibility and performance. Having a world-class integrated system for risk management in place is a priority and we have made steady progress towards this goal. We completed a comprehensive security review of our assets and we finalised our trading risk framework. We are now working on the detailed roles and responsibilities of our energy traders and risk managers. We strengthened our compliance capability with the appointment of a specialist position to co-ordinate the increased obligations and implications created by our involvement in the national market.



CEO Geoff Willis

Prudent water management

Our storages remained low, the year completing a seven-year period of below average rainfall. When combined with record electricity demand, it has been a testing period. Once again, we have had to manage this very carefully and with great skill. While Basslink is the ultimate solution, the interim step to convert Bell Bay Power Station from oil to gas operation to support the hydro system has proved to be a crucial decision from a financial perspective. The second unit was converted from oil to gas in November at a cost of $6 million and the need to run both units through much of the summer and autumn proved the value of this decision.

Had Bell Bay continued to run on oil, the cost would have severely impacted on our cash flow, and limited our capital investment program enormously.

Bell Bay Power Pty Ltd is currently a subsidiary company of Hydro Tasmania and will continue to provide a backup until Basslink commences in November 2005. Following separation, Bell Bay Power will operate with great flexibility as a stand-alone business in a competitive Tasmanian electricity market. In line with this, two external directors were appointed in April, Mr Christopher Lock and Mr Robert Woolley.

Assessing progress

Progress in building a 'world-class' safety culture has been steadily nurtured through a significant partnership with Du Pont Safety Services. The partnership with Du Pont has enabled Hydro Tasmania to set a simple but clear strategy and action plan for the whole organisation. Our growth plans are increasing staff numbers and it is especially important that we focus on the induction of new people into our safety culture.

The customer base has broadened this year with the important interstate sales of Renewable Energy Certificates, and our relationships in Tasmania with Aurora Energy and Transend Networks have strengthened as we plan together for National Electricity Market entry.

We have made good progress on our asset refurbishment and modernisation program, completing the first stage of the Trevallyn Power Station upgrade, and steady progress at Poatina and Tungatinah.

For our wind energy projects, the highlight was undoubtedly the completion of Woolnorth Stage 2, Australia's largest wind farm which was commissioned on time and on budget in February. But of concern have been the delays in the approval process for our other two major wind farm projects in Tasmania – the 120 megawatt Musselroe wind farm on the north-east coast and the 160 megawatt Heemskirk wind farm on the west coast. We have been very thorough in our applications for development approval and, while we accept that such large-scale developments must be empathetic to their locality and ecology, it is disappointing that there have been extensive delays in the process.

Consulting has worked to strengthen the business model which will equip its team well to increase the proportion of interstate and international work it secures in the years ahead. Part of this strengthening is to focus on the areas where we can achieve sustainable returns.

We sold our specialist software division Hydstra in January to Kisters AG, a software company based in Germany. Strong ties have been retained with Hydstra and Kisters AG through the establishment of a long-term partner agreement and representation on the Kisters AG product development board. All key Hydstra staff were retained by Kisters AG as part of the sale.

Sustainability

Much has been achieved for the sustainability of our business over the year. We are working to get a sustainability framework in place to fully internalise the triple bottom line approach which underpins our vision. We are very aware of the need to continually assess the impact of our operations on the community, and to take into account a very broad range of stakeholders in our plans. We will use this new framework to bring all of those interests to account in a balanced and long-term perspective, to embed sustainability into business processes, and to measure and report performance to achieve sustainable growth. This will be formalised

next year when we move towards contemporary sustainability reporting with the release of our first report on environmental, social and economic sustainability.

Our social responsibilities

The year saw a number of opportunities taken to ensure Hydro Tasmania recognises its responsibilities to the community.

We conducted a Cultural Heritage Review of our power stations, a number of which are important to the architectural and heritage stocks of Tasmania.

The Woolnorth Wind Farm remains a drawcard for the public, with over 5000 visitors during the year. The opportunity for the public to appreciate the natural advantage Tasmania enjoys from its electricity system being based on clean renewable energy sources is now enhanced by the Visitor Centre which we opened in June this year.

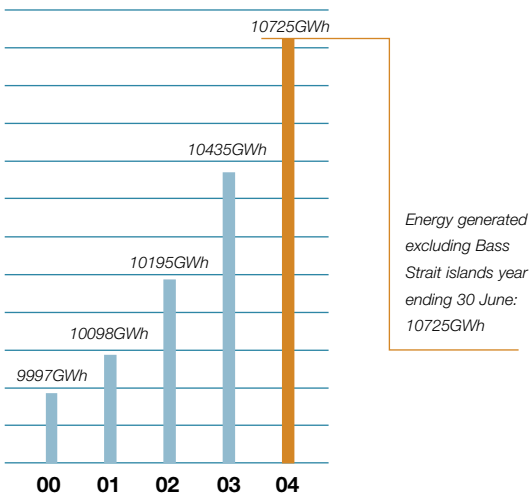
Consultation has continued with local communities interested in the Heemskirk and Musselroe wind farms and in solutions to the ongoing issue of siltation of the Tamar River.

There has been good co-operation with Inland Fisheries Service on the 'co-interest' of lake level management for electricity generation and for recreation.

Hydro Tasmania acted quickly and provided a solution when the saline level of some very special lakes in the World Heritage Area, known as meromictic lakes, fell to levels which could have seen them lost forever.

As part of our policy of transparency in regard to environmental performance, Hydro Tasmania also provided published information on both its cloud seeding operations and wind farm impacts on bird populations.

Energy Generated



All of these initiatives have been taken with the interests of the community in mind.

Lessons learned

Not everything went smoothly during the year.

As well as delays in gaining wind farm approvals, we have been disappointed that work to refurbish Gordon Power Station Number 2 unit has not proceeded to schedule. This refurbishment will now be completed in 2005.

These issues will be given extra management attention in the forthcoming year.

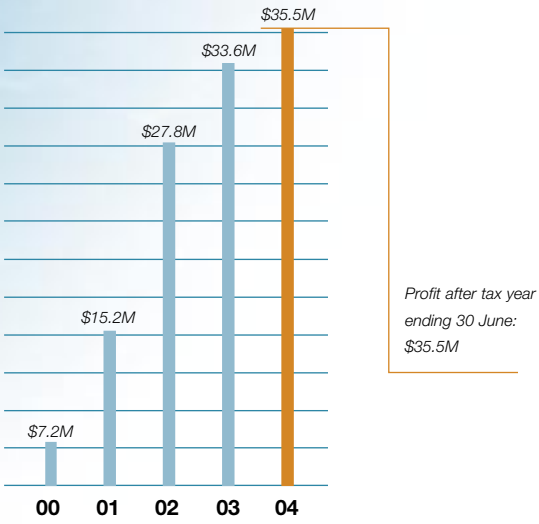
Conclusion

Right throughout the organisation, the focus of the year has been on consolidating in advance of our forthcoming entry into the National Electricity Market. That has been achieved and while much remains to be put in place, there is a real air of confidence that the significant challenges of 2005 and beyond will be met.

finance and profitability

The positive trend of growth in profitability has continued in 2003/2004. Hydro Tasmania has achieved an after-tax profit of $35.5 million, a 5.7 percent increase over that reported last year. The record result is attributable to both strong revenue growth and cost control and has been achieved despite a continuation of below-average rainfall and higher than expected gas consumption at Bell Bay.

Profitability



Revenue growth was derived from increased activities in both the major industrial and the retail sectors, a positive sign for the Tasmanian economy. In addition, revenue from sales of Renewable Energy Certificates exceeded budget. The cost of running Bell Bay for longer than expected due to the low rainfall was more than offset by controls on costs in other areas. The overall positive cost result was also achieved in spite of the need for continued expenditure in preparation for entry to the National Electricity Market. Returns to the State of Tasmania in the form of dividends, income tax equivalents and loan guarantee fees continued to be strong. For 2003/2004, these payments totalled $80.3 million.

Capital expenditure investments

Capital expenditure in 2003/2004 was $132.7 million. This was a $38.9 million or 41.5 percent increase over the previous year. A program of upgrades at our major generation sites was continued with work completed at Trevallyn and commenced at Gordon. Stage 2 of the Woolnorth Wind Farm was completed during the

Frenchmans Cap, viewed from Lake Burbury

year on time and on budget. Both Stages 1 and 2 were generating strongly into the grid at the end of the year.

Our capital works included conversion of Bell Bay Unit 2 to operate on gas, continued upgrade of the telecommunications network and preparation for NEM entry.

Capital structure

During 2003/2004, Hydro Tasmania undertook a detailed review of its capital structure as is required by its Ministerial Charter. While the existing capital structure was found to be adequate for the current environment, it was identified that a stronger balance sheet would provide trading advantages and greater resilience in the National Electricity Market.

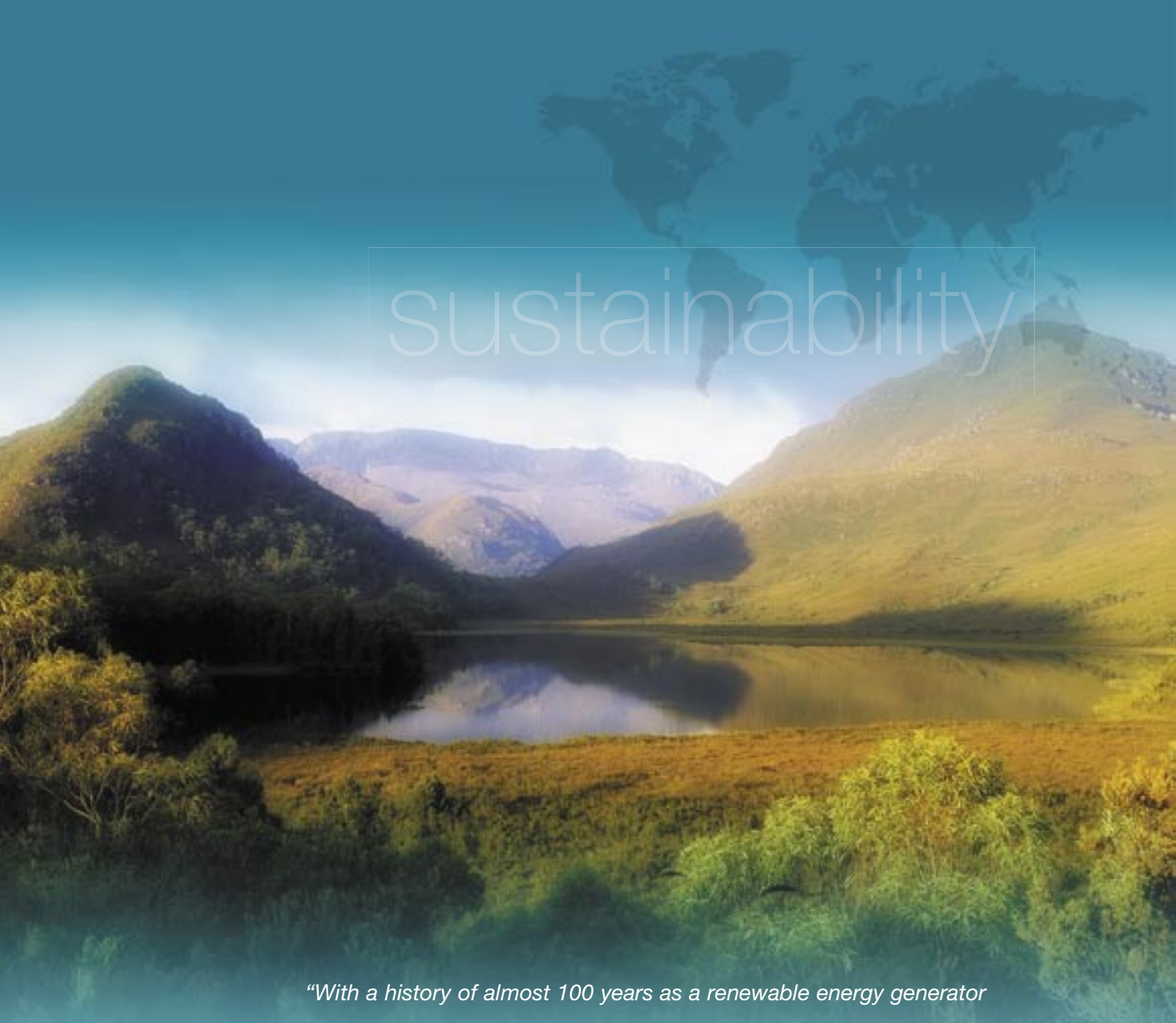
Debt management and Treasury performance

During the year, Hydro Tasmania continued to borrow and invest funds through the Tasmanian Public Finance Corporation (Tascorp). The Corporate Treasury and Business Risk Group has continued active management of the portfolio aimed at both benefiting the Corporation from the current low interest rate environment and insulating the impact of potential interest rate increases. The debt management approach is to benchmark Hydro Tasmania's cost of funds against our peers while ensuring interest cost stability. The current economic environment has provided opportunities to restructure the portfolio and resulted in a weighted average cost of debt at 30 June 2004 of 6.14 percent, a reduction from 6.31 percent at 30 June 2003. Aside from the portfolio restructure, the interest cover ratio improved from 3.05 times in 2003 to 3.30 times as at June 2004.

Rate of return

Equity is normally measured in terms of capital invested in a business by shareholders, with financial performance measured as the return on investment. A more appropriate measure of financial performance for a business like Hydro Tasmania, which has no true shareholder equity invested in it, is the cash rate of return. This is calculated as Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) as a percentage of revalued assets.

The cash rate of return for the 2003/2004 financial year was 7.0 percent, compared with 7.04 percent for the 2002/2003 year.



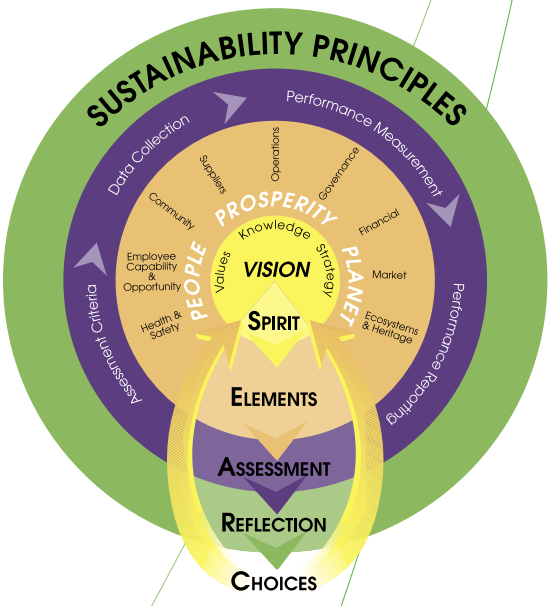
sustainability

"With a history of almost 100 years as a renewable energy generator and as Australia's largest supplier of renewable energy, Hydro Tasmania is well placed to integrate sustainable practices with sustainable products – renewable energy from hydropower and wind."

sustainability

Since the Earth Summit in Rio de Janeiro in 1992 sustainable development has been high on the international and national agenda.

Foremost in the sustainability focus are the efforts made to address one of the world's most pressing environmental and sustainability issues – global warming.



SEARCH Sustainability Framework

There is wide acceptance that global warming means climate change and there is a recognition that in this century, emissions of greenhouse gases from the burning of fossil fuels may have to be cut by 50 to 60 percent if irreversible climate change is to be avoided.

One of the solutions to this global problem is to supply energy services from renewable resources. With almost 100 years of history as a renewable energy generator, and as the largest supplier of renewable energy to Australians, Hydro Tasmania is well placed to integrate sustainable practices with a sustainable product – renewable energy from hydropower and wind. In taking steps to be Tasmania's world-renowned renewable energy business, Hydro Tasmania also seeks to be a sustainable business in economic, social and environmental terms. We have learned a lot from the environmental debates of the 1970s and 1980s. In the last decade we have instituted operational practices to minimise environmental harm, and have had an independently certified ISO 14001 environmental management system in place since 1998.

Hydro Tasmania is now taking the next steps to being recognised as a sustainable energy business based on economic, social and environmental outcomes. As an example, we were engaged by the International Hydropower Association (IHA) to produce the IHA Sustainability Guidelines and the IHA Compliance Protocol to encourage best practice in hydro-electric development. The IHA adopted these guidelines in November 2003.

This achievement was recognised in May this year when Hydro Tasmania received the Environmentally Responsible Business Award as part of the Tasmanian Awards for Environmental Excellence.

Hydro Tasmania has also been working closely with the World Wind Energy Association to develop Sustainability and Due Diligence Guidelines and the first draft of this document now awaits comment from WWEA members.

In relation to our own practices, in the past 12 months the business has developed a framework for conducting a sustainability assessment of the organisation. The SEARCH Sustainability Framework represents Hydro Tasmania's understanding of how to embed sustainability into business processes, and how to measure and report performance. It is based upon five key steps – Spirit, Elements, Assessment, Reflection and Choices.

Nine sustainability elements have been identified and are being used as the basis for sustainability indicators and identifying stakeholders. Information is currently being collected and analysed for the 2003/2004 year, including consultation with stakeholders on sustainability expectations.

Key sustainability achievements for 2003/2004 include:

- re-certification of environmental management system to ISO 14001 for the third time
- commencement or completion of environmental impact assessments for major projects including Trevallyn Tunnel Maintenance, Meromictic Lakes Recharge, Poatina Re-regulation Weir, Tungatinah Power Station Upgrade Feasibility Stage, Supplementary Generation, Heemskirk Wind Farm and Musselroe Wind Farm
- completion of the Derwent Pilot Stage of the Cultural Heritage Program

- continued implementation of the Aquatic Environment Program including:
  - South Esk Great Lake Water Management Review implementation
  - finalist in the United Nations Association of Australia Environment Day Awards for the South Esk Great Lake Water Management Review
  - Derwent Water Management Review - community consultation and public release of the consultation report
  - formation of the Scientific Reference Committee for the Basslink Monitoring Program (an independent expert scientific review panel).

There are many other activities Hydro Tasmania supports, such as the Hands On Education Program, sponsorship of community events, research partnerships and employee development and wellbeing programs that are integral to the sustainability of our business. Our assets also provide multi-use benefits to the community through tourism, recreation, water supply and irrigation.

Hydro Tasmania is aiming to fully report on its sustainability performance in the 2004/2005 Annual Report.

"Preparations for entry to the National Electricity Market will be underpinned by ensuring that energy generation assets are maintained to operate at peak effectiveness. Hydro Tasmania has committed to a 10-year $208 million upgrade and modernisation program of its hydro assets."

energy

A major effort in the Energy business during the past 12 months has been directed at getting the internal systems, processes and generating assets ready for Hydro Tasmania's entry into the National Electricity Market in May 2005. It has been a complex and challenging exercise, requiring a focused management and team effort to co-ordinate the various associated activities.

Executive General Manager, Roger Gill

Hydro Tasmania has worked closely with Transend Networks and the National Electricity Market Management Company (NEMMCO) to overcome a number of technical challenges so as to plan for the optimal transfer of energy across the Basslink cable. Major IT projects have included assessing the information technology for internal systems and processes and writing and redesigning software for the new demands. The majority of technical systems work was completed, the Energy Control System was upgraded on schedule and under budget, and communications established with NEMMCO. The design of the System Protection Scheme, which underpins system stability at higher power transfer levels, was completed ready for construction and implementation.

Basslink

The enabler for achieving the significant milestone of Tasmania's entry into the National Electricity Market is the Basslink project, which is on track for completion in November 2005. When operational, it will be the longest undersea power cable in the world. From Hydro Tasmania's perspective, it is our most important opportunity to secure a sustainable future, since it enables us to maintain our leading role in the renewable energy business and become an energy trader by being connected physically to the National Electricity Market.

Basslink cable-laying ship, the Giulio Verne

29 June 2004 marked the half-way point in the project's three-year construction time frame.

Basslink will be built, owned and operated by Basslink Pty Ltd, a wholly owned subsidiary of British listed company, National Grid Transco.

The cable is being built and installed by Basslink Pty Ltd's contractors Siemens Limited, for the land facilities and control systems, and Pirelli Cavi e Sistemi Energia S.p.A, for the cable manufacture and subsea laying in Bass Strait.

Project milestones during the 2003/2004 year were:

- Pirelli's laying of the first 98 km cable section in Bass Strait during June 2004. The second of three cable lengths is currently being manufactured in Pirelli's cable factory in Naples
- manufacture and testing of high voltage converter transformers and other major electrical components was completed
- engineering design of the Basslink System Protection Scheme was completed and manufacture is well advanced
- civil construction is well advanced at the converter station sites at George Town in Tasmania and Loy Yang in Victoria where direct current (DC) transmission is converted to or from alternating current (AC) transmission
- overhead line installation in Tasmania is largely completed, with easement clearing in Victoria well advanced.

Through the trading of electricity in the national market, Basslink will:

- enable Tasmania to export its valuable renewable energy in times of peak demand and high prices interstate
- enable the import of cheaper, off-peak electricity
- stimulate business growth via access to a more secure electricity system
- substantially drought-proof Tasmania's electricity system.

Under NEMMCO's market regime, electricity is bid into the market every five minutes. From a water management point of view, engineering and production teams have been required to rethink the way the system is controlled, and develop new mathematical models of operation of the system. In order to measure how much power is available, a new metering system at all power stations is being installed to provide accurate measurement systems. Meters were installed on approximately half of the generating plant during the year, with the remainder to be completed in the 2004/2005 year.

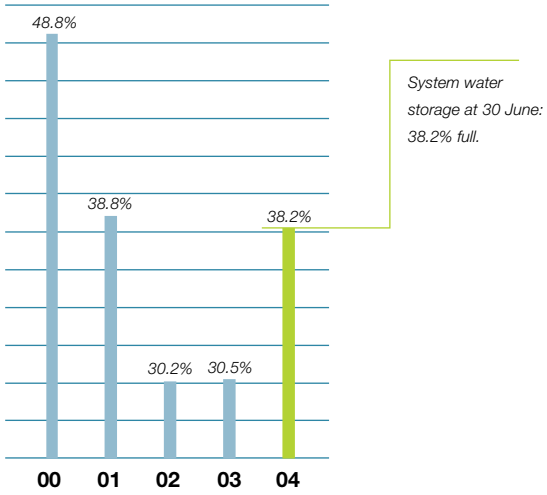
Shadow trading

There has been a progressive strengthening of the trading portfolio group within Hydro Tasmania in preparation for NEM entry. Trading has been working jointly with the production team as part of an innovative 'shadow operations' project. This project provides a simulated trading environment facilitating the testing of pool trading systems and strategies, and the provision of experience to potential pool traders in a simulation environment. The model developed by Hydro Tasmania has allowed the trading group to 'shadow' trade, by taking the previous week's energy trading and practise the decisions they would make in a real trading environment. Gaining this experience prior to NEM entry will be invaluable.

Water management

In the year, Hydro Tasmania has worked very hard to manage its water storages in response to low rainfall. December 2003 was the driest on record and we experienced our seventh year of below average rainfall. Hydro Tasmania has managed this challenging situation, using its world-class skills and expertise. With the delay in getting Basslink in place and the continuing dry autumns, it has been a delicate balance requiring a deal of contingency planning to guarantee security of Tasmania's power supply. Additional backup sources for generating capacity have been planned, such as the use of diesel generators at Bastyan Power Station on the State's west coast, if necessary. However, the most valuable mitigation remains gas. The conversion of a second unit from oil to gas at the Bell Bay Power Station was completed successfully in November. Both units operated for the duration of summer and autumn to supplement critical water shortages. This conversion proved to be a vital, timely and cost-effective decision given the reliance on Bell Bay as support for the hydro system.

System Water Storage



Growth in demand

Both peak demand and demand for energy have continued to increase during the year. This is the result of a buoyant economy, a booming construction and housing industry and the decision by Tasmanians to convert to cleaner, more efficient heat sources such as heat pumps. The year saw a record peak in electricity demand of 1691.2 megawatts. The combination of hydro and windpower and gas are meeting this demand.

Managing infrastructure

Preparations for NEM entry will be underpinned by ensuring generating assets are maintained to operate at peak effectiveness. Hydro Tasmania has committed to a $208 million, 10-year upgrade and modernisation program of its hydro assets specifically targeting 11 of our 29 power stations. Projects have been approved for Trevallyn, Gordon and Poatina power stations. The first stage of the Trevallyn Power Station upgrade program, the relining and repairing of the tunnel that takes water from Lake Trevallyn to the Trevallyn Power Station, was completed during the year, and work started on the upgrade of Gordon Power Station as part of a whole-of-station modernisation program. Gordon is the largest capacity power station and investing in its reliability and increasing availability will be a key to future plans. Work on the first of two machines will be completed by November 2005 in readiness for Basslink coming on line. Upgrade of the second machine will occur in 2006.

There is also further incentive for capital expenditure on upgrade of existing generating assets from the Australian Government's Mandatory Renewable Energy Target (MRET) legislation that rewards electricity generators for creating additional renewable energy capacity. For example, the work at Trevallyn, which will include an upgrade of units three and four at the power station, will create an additional capacity of 15 megawatts when completed, for an increase of between three to four per cent of its output. Hydro Tasmania is pleased to again be working with world leaders in equipment supplies for our refurbishment program – Alstom, General Electric and Voith/Fuji/Siemens.

Dam safety

New standards for the capability of spillways to carry floodwater have been introduced progressively over recent years. As a result, Hydro Tasmania has established a comprehensive Dam Safety Program underpinned by Hydro Tasmania's Dam Safety Risk Management policy and Tasmanian Dam Safety legislation and regulations. The Dam Safety Program manages 54 large and some 120 smaller dams making us one of the largest dam owners in Australia. In the past year, work has centred on the Forth River Valley with the completion of major flood capacity upgrades to Cethana, Devils Gate and Paloona Dams on the Mersey River, flood capacity enhancements on the Murchison, Mackintosh, Bastyan and Reece dams in the Pieman Schemes, and substantial enhancements to the seismic monitoring and analysis capability, and emergency and response capability. The 2003 annual conference of the Australian National Committee on Large Dams (ANCOLD) was held in Tasmania in October, providing an opportunity to showcase Hydro Tasmania's Dam Safety Program to national and international dam management experts.

Relationship building

During the year, Hydro Tasmania renegotiated its connection and network service agreement with Transend. The close working relationship that has been established will continue to be integral to Hydro Tasmania's successful entry into the national market and in ensuring the quality and reliability of power supply. Hydro Tasmania also worked closely and co-operatively with the State Government project team, NEMMCO and Aurora Energy to achieve progress in key energy areas.

renewables

"Hydro Tasmania's research and development program covers emerging wind and hydro technologies, system integration and storage, as well as monitoring other renewable energy technologies such as hot rocks, tidal, solar and biomass."

renewables development

It was a year of considerable progress in Renewables Development, both in project milestones and in contributing to the organisation's vision of being recognised as Tasmania's world-renowned renewable energy business.

The organisation restructure establishing Hydro Tasmania as three interdependent lines of business has placed Renewables Development in excellent shape to pursue its business objectives.

General Manager Renewables Development, Mark Kelleher

The Renewables Development team has a capability over the whole life cycle of wind farm development: site identification, assessment of wind farm potential, prioritisation of the suite of projects, land owner and stakeholder negotiation, preparation of business cases, financing negotiations, construction, commissioning and subsequent management of the assets over their life cycle.

The strength of this full spectrum of responsibility is the shared learning within the team, with everyone involved fully aware of the various steps required for a successful project.

National focus on wind

Much of the work in previous years has focused on investigating wind sites in Tasmania. During the year, we widened our horizons and built up a good portfolio of wind sites for potential wind farm developments around

Woolnorth Wind Farm

Australia, in NSW, Victoria, South Australia, and Western Australia, and purchased the rights to these sites. We also investigated sites in New Zealand and have made contact with potential joint partners in that country.

At the other end of the spectrum, we delivered strongly on our current wind farm construction program. The completion of Stage 2 of Woolnorth was a significant milestone, with the successful construction of 31 turbines, taking the combined total of the project to 37 turbines, and a capacity of 64.75 megawatts. This project, the largest wind farm in Australia, was completed on time and on budget. Plans to commence Woolnorth Stage 3 are now underway, with transmission connection and project finance negotiations to be undertaken during the second half of the 2004 calendar year.

Investment strategy

Hydro Tasmania has needed to be innovative in its approach to accessing funding to meet our ambitious growth plans. The approach adopted for Hydro Tasmania's first major interstate project has utilised non-recourse project finance and the participation of equity partners. This saw us complete the necessary agreements to commence construction on a planned 66 megawatt wind farm at Cathedral Rocks on the Eyre Peninsula near Port Lincoln in South Australia, in partnership with EHN (Oceania) Pty Ltd, a subsidiary of leading Spanish wind development company Corporacion Energia Hidroelectrica de Navarra (EHN). The project has been underpinned by a ten-year power purchase agreement with TXU, and National Australia Bank provided the project finance.

What was impressive was the smooth and efficient approval process for this project, taking four months from the lodgement of the project application to the granting of approval to proceed by South Australian authorities.

In Tasmania, the Development Application for the Heemskirk wind farm was lodged in January 2003 and that for Musselroe in April of the same year. Neither has yet received approval although we continue to provide additional data and expect approval in the next few months.

Both wind farm projects in Tasmania have needed extensive research to ensure that the developments

would not have any significant impacts on endangered bird species inhabiting the areas around the proposed sites.

Hydro Tasmania takes its environmental responsibilities very seriously as evidenced by the extensive and thorough research it has conducted into these bird populations, including the Orange-bellied Parrot, Wedge-tailed Eagle and White-bellied Sea Eagle. This research has significantly expanded the knowledge base for the benefit of the wider community.

Industry leadership

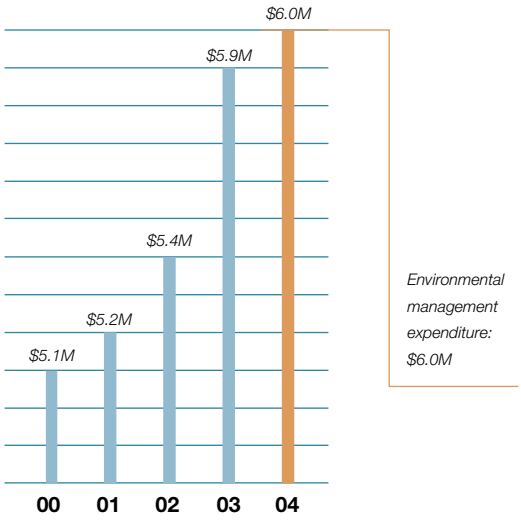
As Australia's largest renewable energy producer, we were very active during the year at an industry level.

We are a member of two leading national renewable energy associations: the Renewable Energy Generators of Australia (REGA) and the Australian Wind Energy Association (AusWEA). Both are part of the fifteen member associations which combined with ten State and Federal Government observers to constitute the federation of renewable and sustainable energy associations – the Renewable and Sustainable Energy ROUNDTABLE. Hydro Tasmania chairman Peter Rae is the chairman of REGA and also of the ROUNDTABLE. Strong and unified advocacy is fundamental to furthering the recognition of Australia's renewable energy and energy efficiency industries on a national and international level.

Developing emerging new technologies

Hydro Tasmania's research and development program covers emerging wind and hydro technologies, system integration and storage technologies, as well as monitoring other renewable energy technologies

Environmental Management Expenditure



such as hot rocks, tidal, solar and biomass. The King Island wind generation and Vanadium Redox Battery integrated solution is proving successful, allowing wind generation to meet around 50 percent of the island's electricity needs, and eliminating an equivalent amount of diesel fuel, thereby saving 4600 tonnes of carbon dioxide emissions per annum.

We have also been active in researching the emerging hydrogen technology, participating in a number of conferences in Australia during the year and in a delegation to the United States for the International Hydrogen Partnership. Currently Hydro Tasmania is developing a proposal to establish an integrated wind/hydrogen/diesel solution for Cape Barren Island.

We are also addressing transmission system issues for large-scale windpower, in particular, the view that there are limits to the reliability of windpower because of its intermittency. New technologies are emerging constantly and we are working actively in this area to

maximise the penetration of wind generation. Tasmania is well suited to do this because of the excellent synergy between its hydro and windpower assets.

Mandatory Renewable Energy Target (MRET)

Underpinning our significant capital investment in renewable energy projects is the Australian Government's Mandatory Renewable Energy Target (MRET).

This target, set in legislation and in operation since April 2001, specifies that energy retailers and major consumers need to source an additional two per cent of their energy requirements from renewable sources by 2010. In essence, this translates to an additional 9500 gigawatt hours of electricity above a level based on 1997 production.

During the year, after two years of operation of the scheme, a major review was undertaken by an expert independent panel appointed by the Australian Government.

The panel's report recommended the target should continue to grow beyond 2010, and apply until 2035. However, the Australian Government ignored the report's recommendation in its White Paper "Securing Australia's Energy Future", released on 15 June, and retained the target as is.

This was a disappointing outcome for the renewable energy industry. It means projects underway at present will likely continue as planned, but the long-term investment in this industry beyond 2007 is in serious doubt.

The decision to leave MRET unchanged has a ripple effect throughout the industry. For example, Danish wind turbine manufacturer Vestas was set to invest in a blade manufacturing plant in Tasmania on the back of Hydro Tasmania's significant investment plans and an increase in MRET, but Vestas has now put this investment on hold.

We will be working with the industry to convince decision-makers that increases in MRET are needed, so as to build on the remarkable achievements to date and to ensure growth of this industry continues.

consulting

"Our aim is to be world-renowned for the innovative provision of sustainable solutions in water and energy. The demand for clean, green renewable energy in countries such as India, China, Sri Lanka and The Philippines is expected to open up numerous business opportunities for the skills and expertise of Hydro Tasmania Consulting."

consulting

With decades of experience and expertise, Hydro Tasmania Consulting, one of Hydro Tasmania's three lines of business, is growing an international reputation and client base with projects around the world.

In the past year, the business carried out catchment monitoring and modelling in Cambodia and Fiji, wind energy modelling in Canada, assessment of mini-hydro potential in Sri Lanka and dam safety in Indonesia and Samoa.

General Manager Consulting, Mike Brewster

Our aim is to be world-renowned for the innovative provision of sustainable solutions in water and energy. We offer services in three key areas: renewable energy, catchment and environmental management and power engineering.

Clients included electricity, environmental and water utilities, all levels of government in Australia and overseas, project developers and multilateral lending agencies.

With the level of activity in the Tasmanian energy sector, particularly renewable energy growth, approximately two-thirds of Hydro Tasmania Consulting services were provided to clients within Hydro Tasmania. The overall goal of the business is to achieve a 50/50 balance between internal and external clients.

Gordon Dam

Increased consultancy work during the year resulted in Hydro Tasmania Consulting recording an above-budget financial result, doubling its contribution to $4.1 million, from $2.1 million the previous year.

Delivering specialist services and solutions

Hydro Tasmania Consulting offers solutions in a range of specialist fields such as hydropower, mini-hydro, wind energy, dam design and safety, sustainable catchment management, environmental services, transmission design, and power system modelling. In line with this growth and level of specialisation, the business continues to attract quality personnel, with an additional 50 leading engineers and environmental scientists employed during the year, taking the total number of employees at year's end to 359.

Hydro Tasmania Consulting worked on three significant projects throughout the year, including the 50-metre high Burnett Dam being constructed inland from Bundaberg in Queensland. The roller compacted concrete project, the largest project ever undertaken by Hydro Tasmania Consulting outside Tasmania, was conducted with consultants SMEC, contractors Walter and MacMahon and developer Burnett Water Pty Ltd in an alliance to design and construct what is Australia's largest sustainable water project under development. More than 50 of our consultants worked on the project, many based in Brisbane during the detailed design phase. Services provided by Hydro Tasmania Consulting have varied from environmental studies and approvals, fishway design, dam design and the electrical and mechanical aspects of the outlet works.

Hydro Tasmania Consulting was also involved in a major power project in South Korea, the 250MW Siwha Tidal Power Project, which will be the largest such power development in the world. The contractor, Daewoo, invited Hydro Tasmania Consulting to assist in bidding for the design and construction of the project.

The team travelled to Seoul and assisted Daewoo in securing the contract. Hydro Tasmania Consulting has received a success fee for its initial services, and is now negotiating with Daewoo for involvement in the detailed design phase.

Two years of marketing and sales activity in Sri Lanka have culminated in Hydro Tasmania Consulting being awarded a $750,000 consultancy by the Asian Development Bank.

The project will involve collecting information about the socio-economic parameters in Sri Lankan villages that have recently been connected to the electricity grid, or could be in the near future. The aim is to prepare a technical and economic argument for projects that will result in increasing the number of households in Sri Lanka with access to the grid from 50 to 80 per cent. This goal is a priority for the Sri Lankan Government for the development of the country.

Hydro Tasmania Consulting will carry out this consultancy in association with Resource Development Consultants, one of the largest consulting firms in Sri Lanka.

Sustainable growth opportunities

Hydro Tasmania's international status as a leader in the hydropower industry has been enhanced following the adoption by the International Hydropower Association (IHA) of the Sustainability Guidelines and Compliance Protocol for Hydropower Development and Water Management. Hydro Tasmania Consulting in conjunction with Hydro Quebec drafted these guidelines as a service to the IHA to promote greater consideration of environmental, social and economic sustainability in the development and operation of hydro projects.

The demand for clean, green renewable energy in countries such as India, China, Sri Lanka and The Philippines is expected to open up numerous business opportunities for the skills and expertise of Hydro Tasmania Consulting.

Hydstra

During the year, the business sold its specialist software company Hydstra to Kisters AG, a software company based in Germany. Strong ties have been retained with Hydstra and Kisters through the establishment of a long-term partner agreement and representation on the Kisters product development board.

corporate services

"The main focus has been to provide support for Hydro Tasmania's major goals of preparing for entry to the National Electricity Market and developing wind farms."

corporate support services

The full range of corporate support services is provided to Hydro Tasmania by its Corporate division and the Human Resources and Public Relations groups, in order to assist the organisation to meet its business objectives.

Corporate

For Corporate, the main focus of the 2003/2004 year has been to provide support for Hydro Tasmania's major goals of preparing for entry to the National Electricity Market (NEM) and developing wind farms. In particular, the Corporate team played a significant role in providing banking, financing, risk management, insurance and credit risk services advice for the Cathedral Rocks wind farm project. Considerable effort was also directed into improving existing activities and processes.

Information Technology

A program of activities centred on implementing the IT systems required for NEM operations. This is due for completion in readiness for NEM entry in May 2005. A new network domain including enhanced security and network reliability was also completed. A pilot project for electronic document management was conducted and work has commenced on implementing this system. A planned review of IT strategy was completed, taking into consideration changes to organisational structure to support NEM operations.

Risk management

Risk management continues to be progressively integrated with normal business operational processes through the Integrated Business Risk Management (IBRM) system. This includes business planning, budget prioritisation and cases for expenditure approval. Reporting of risk trends, the strengthening of the status of mitigating actions and the use of quantitative assessment tools and methodologies are being trialled.

Operational risk management has been strengthened across financial and accounting functions in order to gain an Australian Financial Services Licence

necessary for operation in the NEM. Trading and risk policies continue to be developed and refined. An energy risk management system was also selected and is ready for implementation.

Critical Infrastructure Protection (CIP)

Work continued across the organisation to ensure appropriate risk assessment and mitigating strategies in response to the ongoing general terrorism threat, and to meet government expectations for critical infrastructure owners. Relationships have been further developed within the Tasmanian electricity industry, State Government and the State Security Unit with a Tasmanian Energy CIP Group now being established to further improve sharing of information and co-ordination of activities.

General business activities

Preferred supplier agreements were developed during the year, leading to a range of benefits including lower purchase costs, lower inventory levels and better availability of required goods and services.

Human Resources

This year the focus was on the areas of safety and health, leadership and values. A major activity was the move to the new organisational design of three lines of business with their own support services, balance sheets and business models. In the process, 30 roles were created or refined in a manner which provided a number of opportunities for promotion and some new recruitment opportunities.

Safety and health

Progress in building a world-class safety culture has been steadily nurtured through a significant partnership with Du Pont Safety Services. The partnership with Du Pont has enabled Hydro Tasmania to set a simple but clear strategy and action plan to work towards its safety goal. The initial objectives have been achieved.

Importantly, the Lost Time Injury Frequency Rate (LTIFR) of 3.3 lost time injuries per million man hours has reduced from 7.4 last year and is a positive indication of the effectiveness of the current safety program.

The Healthy Hydro Tasmania Program (HHTP), which involves a wide variety of health and fitness activities, has played an important role in the wellbeing of Hydro Tasmania employees.

Enterprise Partnership Agreement (EPA)

The EPA was successfully negotiated and certified by the Industrial Relations Commission in July 2003, coming into effect on 1 August 2003. There were a number of new issues included in the EPA, such as a review of remuneration and classification structures.

Leadership development

The leadership program continued to deliver leading edge solutions with a panel of coaches established to support leadership development throughout the business. Selective programs were offered in aspects such as communication and presentation skills.

Values

The values project, which spanned most of the previous year, continued and provided an excellent opportunity for the business to review what it valued. This project resulted in values and behaviours being set down based on feedback from employees. Values are used in recruitment and as part of our performance management system, and are an integral part of decision-making.

Workforce planning

A Workforce Planning System was developed collaboratively to provide managers with a framework for ensuring Hydro Tasmania has the organisational skills and capability to deliver business sustainability and strategic objectives in the short and long term. A successful pilot of the system has provided the catalyst for full implementation of the system in the coming financial year.

Public Relations

During the year, Hydro Tasmania continued a program of initiatives locally, interstate and overseas that reflected its position as Australia's leading renewable energy business. A significant element of this was to work with stakeholders, including Government, the Parliament, business, community groups and the media, as part of a wider commitment to being a responsible corporate citizen, and in keeping with its position as the State's principal Government Business Enterprise. There were many highlights during the year, especially in wind farm development. The Public Relations Group provided support and expertise to publicise these highlights to all stakeholders.

The group was also responsible for keeping government at all levels informed of Hydro Tasmania's activities and providing support, information and briefings when necessary.

Education

The Hands On Energy Discovery Centre is developing a growing reputation for providing an exciting educational venue for students from all areas of Tasmania, as well as interstate and overseas. Almost 8000 people visited the Centre during the year, including 6728 students.

Major achievements for the year include:

- entering into a partnership with the CSIRO Discovery Centre in Canberra to develop an exciting exhibition on Energy Futures
- providing professional development for practising teachers with field trips to catchment areas and the Woolnorth Wind Farm
- sponsoring many school-related events and programs
- contributing to the syllabus content for a new course being offered in Tasmanian secondary schools from 2005, "Science of Natural Resources – Energy"
- installing the most extensive collection of hydrogen fuel cell models in the State.

Building community relationships

Through the year, Hydro Tasmania continued its commitment to informing the community of its activities through its Annual Meeting and a series of business functions, stakeholder forums and consultation events to ensure Tasmanians were aware of our actions, initiatives and future plans, as well as gauging community reaction to our performance, activities and direction. Hydro Tasmania continues to support many Tasmanian organisations and initiatives through sponsorship of events and activities that reflect the priorities of the business, enhance our position as a responsible corporate citizen and continue our involvement with worthwhile community initiatives. The principal sponsorships of the year included the Tasmanian Symphony Orchestra, the Three Peaks Race (a challenging sailing and land-based endurance event) and the Southern Cross Young Achiever Awards – Environment Category.

corporate governance

Hydro Tasmania's Board of Directors has the corporate governance responsibilities of establishing the organisation's strategic direction; formulating corporate policy and monitoring its implementation; setting and monitoring risk management policies and procedures; and overseeing the prudent management of the financial affairs of the business on behalf of our owner, the State of Tasmania.

Corporate governance philosophy

In fulfilling its obligations to Government, employees and the wider community, the Board of Hydro Tasmania aims to exceed, rather than simply meet, the governance standards imposed by the law or established practices.

Our corporate governance processes are shaped by:

- a desire to achieve the highest ethical standards in everything we do to ensure that we act fairly and in accordance with stakeholder expectations; and
- a concern to ensure the Board is operating efficiently and effectively in the execution of its responsibilities.

The Directors 2003/2004

The Hydro-Electric Corporation, which trades as Hydro Tasmania, is a statutory corporation with a Board consisting of a maximum of nine directors.

The directors are appointed by the Governor-in-Council for terms of up to three years.

Chairman of Hydro Tasmania is the Honourable Peter Rae AO.

His fellow directors are Mr Geoff Willis, Dr Julian Amos, Mr Ken Baxter, Mr Don Challen, Ms Janine Healey, Ms Carol Hughes and Mr Graeme Kennedy.

Dr Nora Scheinkestel resigned from the Board on 21 April 2004.

Mr Rae (71) has been a Board member since 1992 and Chairman since 1993. He is also Chairman of the Renewable Energy Generators of Australia Limited and founder and Chairman of the Renewable and Sustainable Energy ROUNDTABLE. Mr Rae is

Carol Hughes, David Crean, Janine Healey, Graeme Kennedy, Peter Rae, Ken Baxter, Julian Amos, Don Challen and Geoff Willis

Vice President (Oceania) of the World Wind Energy Association and a director of the International Hydropower Association.

He holds an Arts degree and an Honours degree in Law. He is an AADM, FAICD and an FAIE.

During his 21 year career as a parliamentarian, including Senator for Tasmania for 18 years, he held senior positions as chairman of both Select and Standing Committees of the Senate. He led the reform of the Corporations Law and of the Stock Exchanges of Australia (the Rae Report), as well as the reform of Commonwealth Government Business Enterprises law and practices.

He served both as the Federal Shadow Minister for Industry and Commerce and as a Shadow Minister for Finance. This followed an earlier term as Shadow Minister for Education and Science. He led major inquiries and policy development in tax reform as well as the deregulation of the finance sector.

He was the Tasmanian State Minister for Education and for Technology. He also served on the Australian National University Council and its Finance Committee for 16 years. In the 1999 Australia Day Honours, Mr Rae was made an Officer of the Order of Australia for services to Australia in relation to business and commerce as well as to Parliament.

Mr Willis (56) has been the Chief Executive Officer since 8 March 1999. Prior to this appointment, Mr Willis was Managing Director, Amcor Paper Group.

He has a Bachelor of Commerce degree and a Masters degree in Business Administration, and has completed the Executive Program at Stanford University.

Mr Willis is Chairman of the Energy Supply Association of Australia's Environment Committee, a member of the National Electricity Code Administrator Reliability Panel, a director of Tastel Pty Ltd and Chairman of Colorpak Limited.

Mr Willis is a Member of the Australian Institute of Company Directors.

Dr Amos (59) was appointed to the Board on 20 May 1999. He has a PhD in Botany and was a Cabinet Minister in the Tasmanian Parliament with the portfolios of Primary Industry, Energy and Forests. He was the founder of, and currently conducts, a business management consultancy specialising in strategic positioning, negotiating skills and dispute resolution. He is Chairman of Sun Aqua Pty Ltd and EMerchants Holdings Pty Ltd (both Queensland-based companies) and chairs a Management Advisory Committee for NSW Fisheries. Dr Amos was also a director of the Office of the Minister for Agriculture, Forests and Lands in NSW and the inaugural executive officer for Salmon Enterprises of Tasmania (Saltas), the Tasmanian salmon industry's representative body.

Mr Baxter (60), appointed to the Board on 6 November 1996, is a Strategic Management Consultant. He has a Bachelor of Economics degree from the University of Sydney. He is a Fellow of the Australian Institute of Management, Fellow of the Australian Institute of Company Directors and a Member of the Academy of Political Science (New York). He is Chairman of AVT Bioplasma Ltd and Computronics Ltd. He has been senior policy adviser to the Chief Secretary of the Government of Papua New Guinea since 1999. He has held the positions of Chairman of the Australian Dairy Corporation and Chairman of the Australian Dairy Research and Development Corporation, Chairman of the Council of Australian Governments Electricity Reform Committee, member of the COAG Micro-Economic Reform Committee, Director-General of the NSW Premier's Department, Secretary of the Department of Premier and Cabinet in Victoria and Director of the Sydney Organising Committee for the Olympic Games (2000). He has held the positions of Commissioner of the Australian National Railways Commission and Director of the Baker Medical Research Institute.

Mr Challen (54) was appointed to the Board on 22 March 1993. Currently Secretary of the Tasmanian Department of Treasury and Finance, Mr Challen has a Masters degree in Economics. He is a Fellow of the Australian Institute of Company Directors, a Fellow of CPA Australia and an Honorary Fellow of the Finance and Treasury Association.

Mr Challen is Chairman of the Tasmanian Public Finance Corporation and is a member of the Financial Reporting Council. He previously held the positions of Reader in Economics at the University of Tasmania, Director, Office of the Economic Planning Advisory Council and Managing Director of the Tasmanian Development Authority.

Ms Healey (45) was appointed to the Board on 9 September 2002. Currently a Chartered Accountant with R.J. Ruddick & Co, Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, and planning and cash flow management. Ms Healey has a

strong history of community involvement in Tasmania which includes serving as a member of the University of Tasmania Audit and Finance Committee (including a term as Chair), Treasurer of the Launceston Chamber of Commerce, Director of the Inveresk Railyard Development Authority (including Chair of the Audit Committee), Director of the Female Factory Historic Site Ltd in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd.

Her professional memberships include Chairman of the Taxation Institute of Australia (Tas) and Fellow of the Institute of Chartered Accountants.

Ms Hughes (57) was appointed to the Board on 18 May 1999, and is a qualified lawyer. She has practised for a number of years as a barrister and solicitor, predominantly in the areas of commercial and family law, and more recently in administrative law as Tasmanian Director of the Social Security Appeals Tribunal. Since 1979, Ms Hughes has been actively involved in community organisations, and has served on several boards, including Terrapin Puppet Theatre, the Australian Women's Education Coalition, Advocacy Tasmania and the Tasmanian Council on AIDS and Related Diseases. She is currently Manager of the Resource Planning and Development Commission, a Trustee of the Southern Regional Cemetery Trust, and a member of the Nomenclature Board.

Mr Kennedy (66) was appointed a Commissioner on 1 July 1990. He has an Honours degree in Civil Engineering, is a Member of the Institution of Engineers Australia and a Fellow of the Australian Institute of Company Directors. Mr Kennedy is Chairman and a director of Tasmanian Perpetual Trustees Limited and a former Secretary of the Tasmanian Departments of Resources and Energy, and Mines. His extensive private sector background ranges from small business and heavy civil engineering construction to the debt and equity financing of major industrial and resource development projects, and wide experience in the domestic and international capital and money markets.

Mr Lamprill (60) was appointed Secretary to the Board on 19 March 1997 and was formerly Solicitor to the Hydro-Electric Commission. He holds a Bachelor of Laws degree from the University of Tasmania. Mr Lamprill retired on 30 June 2004 with Mr Stephen Bendeich appointed Acting Corporation Secretary until the position is filled.

** Details of directors are as at 30 June 2004.*
*** Dr David Crean was appointed to the Board on 12 July 2004.*

Board meetings attended year ended 30 June 2004

	Ordinary meetings held while a Board member	Attended
Hon P E Rae	12	12
G L Willis	12	11
J J Amos	12	12
K P Baxter	12	11
D W Challen	12	11
R E Gill*	1	1
J M Healey	12	12
C A Hughes	12	11
G A Kennedy	12	10
N L Scheinkestel	10	9

**Mr Gill attended the July 2003 meeting as Acting CEO*

Board Committee Structure

Committees play an important part in guiding the Corporation on specific governance issues. Committees are able to give full attention to important corporate issues and make informed recommendations to the full Board, which makes the final decisions.

The following is the current membership and a brief overview of the responsibilities of each committee.

Audit Committee

J.M. Healey (Chair), K.P. Baxter, J.J. Amos, P.E. Rae, with management support from B. Stubbe.

The Committee operates under an Audit Committee Charter with responsibilities including to:

- oversee the external financial reporting by the Corporation and provide an independent review of financial information presented by management to regulators
- oversee the scope and quality of audits conducted by the internal auditor
- meet with the external auditors to discuss their audit scope and results
- determine the adequacy of the Corporation's systems of internal controls
- receive reports on compliance matters and review corrective actions taken.

The Committee meets at least quarterly and reports quarterly to the Board.

Business Risk Committee

G.A. Kennedy (Chair), D.W. Challen, C.A. Hughes, G.L. Willis, with management support from L. Balcombe, S. Halliday and J. Minchin.

The Committee's responsibilities are to:

- advise the Board on risk management issues and strategies
- sponsor the Integrated Business Risk Management (IBRM) program
- review and consider the consolidated profile of Hydro Tasmania's major risks
- review and endorse IBRM, Treasury, Marketing and Trading, and Dam Safety risk management policies for Board approval
- on behalf of the Board, monitor overall risk management performance.

The Committee meets at least quarterly.

Human Resources and Remuneration Committee

D.W. Challen (Chair), C.A. Hughes, P.E. Rae, G.L. Willis, with management support from A. Vallance.

The Committee's responsibilities include:

- advising the the Board on human resources management policies and strategies
- overseeing the annual safety plan and safety reports

- monitoring the effectiveness of performance and development programs
- reviewing the performance and effectiveness of the Corporation's remuneration and benefits strategy.

The Committee meets at least quarterly.

Environment Committee

P.E. Rae (Chair), J.J. Amos, G.L. Willis, with management support from A. Livingston, A. Scanlon and H. Locher.

The Committee's responsibilities are to:

- advise the Board on Hydro Tasmania's environmental policies
- review the performance of Hydro Tasmania's Environmental Management System
- review Hydro Tasmania's environmental programs
- examine strategic environmental issues including relations with stakeholders, new legislation and new government and industry initiatives
- commission environmental audits and studies to address issues of concern or to verify information
- approve the annual Environmental Report.

The Committee meets at least quarterly.

Corporate Governance Committee

P.E. Rae (Chair), G.L. Willis, J.M. Healey and G.A. Kennedy, with management support from S. Bendeich, L. Balcombe and M. Howarth.

The committee's responsibilities are to:

- maintain guidelines identifying the roles and responsibilities of the Board and management
- formulate processes for measurement of Board performance
- monitor corporate governance issues as they arise.

The Committee meets at least quarterly.

Compliance

The Corporation has introduced a senior role to oversee performance in relation to all compliance obligations. This role reports to the Chief Executive Officer and has direct access to the Board.

CEO performance

The Board also maintains a formal process for the evaluation of the Chief Executive's performance. The formal evaluation is based on specific criteria, including the Corporation's business performance, the extent to which longer-term strategic objectives are being achieved and the development of the Corporation's people at all levels of the organisation. This assessment is structured and conducted by the Board and includes the requirements under the *Government Business Enterprises Act 1995*.

Board processes

The Board conducts a program of continuous improvement of its operations, including a critique at the conclusion of each Board meeting. This ongoing 'self assessment' process ensures an overall improvement in Board procedures and practices, on a continuing basis.

statement of corporate intent

This Statement of Corporate Intent has been prepared pursuant to Section 41 of the *Government Business Enterprises Act 1995* (the GBE Act).

1.1 BUSINESS DEFINITION

1.1.1 Commercial Activities

Hydro Tasmania is a Government Business Enterprise, operating in commercial markets. Our principal business activities are:

- management and operation of major dams, infrastructure and equipment for the generation and trading of electricity and related products;
- development of new renewable energy generation assets; and
- provision of consulting and other services in renewable energy, environmental and water management and associated sciences and technologies.

1.1.2 Non-Commercial Operations

Hydro Tasmania provides concessional arrangements to customers of Hydro Tasmania living on the Bass Strait islands. Aurora Energy delivers these arrangements to customers via a sub-contract arrangement, with net costs of the activity funded by the State Government as a declared Community Service Obligation (CSO).

1.1.3 Strategic Objectives

Hydro Tasmania has a statutory obligation under the *Government Business Enterprises Act 1995* to achieve a sustainable commercial rate of return that maximises value for the State. In formulating the sustainable commercial rate of return, we have assessed sustainability and value for the State in accordance with the triple bottom line business model, which measures corporate performance having regard to profits, environmental sustainability and social responsibility. The value for the State defined here primarily reflects

the long-term increase in financial returns from and/or economic worth of the business. This Corporate Plan sets out our business performance targets in accordance with the triple bottom line business model and is submitted by the Hydro Tasmania Board for approval by the Minister for Infrastructure, Energy and Resources and the Treasurer, as the Portfolio and Stakeholder Ministers under the GBE Act.

The Hydro Tasmania Board recognises that approval by the Minister and Treasurer indicates that the business performance targets specified within the Corporate Plan of Hydro Tasmania are set so as to achieve a sustainable commercial rate of return that maximises value for the State.

1.2 STRATEGIC DIRECTIONS

The business directions and strategies were developed by considering our future operations in three distinct phases:

- 10 years out to 2014 – where we expect the business to be positioned in 10 years time;
- 2 to 4 years out – how the business will be positioned following a few years of operating in the NEM (National Energy Market); and
- what has to be done in the next 18 months to transform the business from its current operations to NEM competitor.

Our aspirations for the future are firmly grounded by reference to the *Hydro-Electric Corporation Act* (HEC Act) and the Ministerial Charter.

Hydro Tasmania is tasked through the GBE Act with achieving a sustainable commercial rate of return that maximises the value for the State in accordance with its Corporate Plan, while having regard to the economic and social objectives of the State. In achieving this, it is Hydro Tasmania's charter to prudently grow those areas related to its principal purposes, which will enhance its position locally, nationally and internationally where such growth will add value to both Hydro Tasmania and the State of Tasmania.

In this regard, the principal purposes defined in the HEC Act are:

- generation and trading of electricity;
- provision of consulting and other services in hydropower, environment and water management, and associated sciences and technologies; and
- scientific and commercial research associated with all of the above.

This context guides and drives the Corporation's future.

In developing our strategic directions it has also been recognised that a higher level of separation to our three business lines is desirable. Increased separation of the three business lines will allow each of them to engage and compete effectively in their markets, and align their governance and delegation frameworks to their respective business operations. As well, specific performance measures will be applied to each business. However, the overall achievement of the Corporation's strategic objectives will be facilitated by the critical interconnections between the three businesses as shown in the diagram on page 54.

1.2.1 2014 timeframe

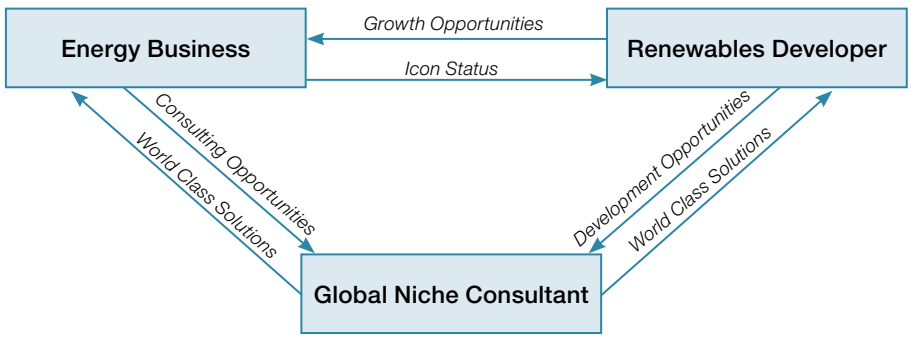
Our vision for 2014 sees the Corporation:

- successfully operating in the National Energy Market as a highly efficient and profitable generator, underpinned by world-class capabilities in trading, water management, asset management and risk management;
- positioning Tasmania as an icon for communities globally, for our sustainable energy and water solutions;
- building out from our existing strengths of hydropower, wind power and water management into carefully targeted niches focused in fast-growing regional economies where risk is commensurate with reward and energy and water skills are highly valued;
- influencing/guiding/leading energy and water policy because of our excellent reputation and expertise to protect and enhance our business;
- being sought after for advice by the world's leading sustainable companies;
- employing people who come from a range of cultures, who are passionately committed to our values and learning from the work we do and from each other and who are proud of our exemplary approach to safety; and
- applying our leading-edge corporate governance practices and concepts.

Our key strategies to achieve our vision for 2014 are to:

- develop and implement a robust business model, risk framework, trading approach and transformation plan, to see us become a profitable and highly respected NEM participant;
- establish a business culture built upon learning and innovation and values-based decision-making;
- position ourselves for profitable growth opportunities for consulting and development in our chosen niches - renewable energy and water solutions in Australia and New Zealand and countries with fast-growing economies;
- ensure the Consulting business develops its profitable external niche markets;
- establish a lead role in renewables development in Australia and New Zealand together with our industry and financial partners;

3 interdependent lines of business



- actively participate in carefully selected research and development in renewable energy, water management and related areas;
- actively promote our Tasmanian infrastructure, renewable resources and trading capability as a world-leading reference site;
- ensure an effective corporate governance and capital structure is in place; and
- continue to be an active contributor to energy and water policy development and implementation at all levels (Tasmania, Australia and internationally).

1.2.2 2–4 year timeframe

By the end of 2007 our business will have moved ahead strongly in our three key business areas of:

- Energy
- Renewables Developer
- Global Niche Consulting.

Energy in 2007

- The business will be trading profitably in NEM.
- The technical operation of Basslink will be fully bedded in.
- As we are highly dependent on our core Tasmanian business, we continue to value this market and our community support.
- The quality of NEM trading activity and risk management will have improved to the point where we are highly regarded in the market.
- Our systems and processes are so adaptable and robust that only changes in the external environment are able to substantially impact on our business performance.
- Our trading operation will be reaping the benefits of our strong investment in asset management with high availability and reliability from our assets.

Lake Pedder looking north-east from near Scotts Peak

Renewables Developer

- 250 MW of renewable energy assets will be in place or under construction with a total capital value of $500M. These developments will be executed with the close involvement of our business partners.

Global Niche Consulting

- Our Consulting Solutions in Renewable Energy, Catchment Management and Power Engineering will be increasingly sought after locally, nationally and internationally and 50 percent of that business' revenues will be sourced from its external customer base.

These outcomes will be achieved by committing resources and effort towards the following objectives.

Objective	Outcome
Financial	• achieve an increase in nominal profit (EBITDA) of 10 percent by 30 June 2008 primarily from trading across Basslink, REC sales and Consulting; • achieve improved return on capital employed; • strengthen our balance sheet, maintain our capital base and achieve and maintain a BBB credit rating; • have new developments contributing financially to the Corporation; and • generate free cash from our business of $25M for investment per annum by 30 June 2007.
Growth	• actively monitor new technologies and appropriately participate in those which can grow our business profitably; and • develop the partnering concept through joint ventures for renewables development, risk reward sharing contracts by Consulting and joint research programs.
People	• develop a very strong safety culture; • demonstrate clear leadership at all levels of management to guide the systematic transformation of Hydro Tasmania over the next two to four years • develop, enhance and upskill our people to the extent that they use their accountability and apply the lessons they have learned to improve our business and, where necessary, move freely across our business to implement the vision; • engender a commercial/business approach and have this embedded through our training, decision-making processes, recruitment and reward systems; • provide our people with rewarding and challenging work; and • embed the behaviours inherent in our values system across the organisation, while maintaining the flexibility in our businesses to allow behaviours appropriate to their individual markets and competitive environments.
Process and Organisational Design	• simplify/streamline our processes and procedures; and • design and implement a business structure that allows us to engage and compete effectively in our markets, and align our governance and delegation frameworks to our respective business operations.

Objective	Outcome
Influence Policy	• seek to optimise the position of Hydro Tasmania for the long term, by advocating: - Mandatory Renewable Energy Target extended to 2035 with a real increase in the target; - an Emissions Trading framework favourable to renewables with hydropower recognised as a renewable energy source; - globally, hydro development must be based on sustainability, not whether it is large or small; • acceptance of wind technology in the NEM rules; • an improved transmission regulatory framework; and • sustainable water infrastructure policies.
Corporate Citizen	• act responsibly in the community and support community icons; • have an exemplary environmental reputation; and • ensure that we maintain close ties with the Tasmanian community.

1.2.3 18-month timeframe

As part of conducting the full activities of the business, an emphasis will be placed on the following key actions.

	Strategic Priorities
Energy	• achieve NEM entry by May 2005 and have the Corporation NEM ready at that time; • steer Basslink to a successful implementation through a strong relationship with Basslink Pty Ltd; • build our trading capability with: - the right people in a strong team environment - getting and using the right information through networking and - implementing suitable control systems; • sustain the existing assets and progress asset enhancements in line with financial capability; • maintain focus on current operation and customers; • implement regular analysis and reporting of market changes and emerging directions and provide feedback on the impact to the business; and • implement a streamlined governance structure and best-practice risk management framework.

	Strategic Priorities
Renewables Developer	• complete Woolnorth Stage 2 on time and on budget; • deliver wind developments within commercial parameters: - secure development financing; - Cathedral Rocks and Woolnorth Stage 3 approved and commissioned; and - planning approvals completed for Heemskirk and Musselroe; • deliver working alliances with our alliance partners; • refinance Woolnorth stages 1 and 2; • resolve technical wind integration issues; • develop a strategy and implementation plan for Research and Development for the next five years; • continue to position Hydro Tasmania for future business prospects with potential partners; and • be active in relevant forums to promote Hydro Tasmania's profile.
Global Niche Consultant	• re-orient the Consulting business through a Marketing Plan to extend its external customer base in niche solution areas and targeted geographies. • implement Professional Services Automation; • move to a contestable market for consulting services within Hydro Tasmania; • implement new accommodation arrangements; • establish an Advisory Panel for Consulting with appropriate accountability and role definition; • develop the Hydro Tasmania Consulting brand; and • establish a remuneration structure to better reflect the nature of a consulting business.
Systems and Processes	• create organisation design for a new environment: - successfully bed it down; - identify and attract new talent; and - embed values and behaviours. • lift PR capability to: - connect PR activities to our business strategy; - implement positioning strategies; and - ensure effective internal communications.

	Strategic Priorities
Systems and Processes	• implement regular, formal stakeholder feedback processes; • continue policy influencing tasks for MRET, CDM, NEM and water infrastructure policy where there is a business impact on Hydro Tasmania; • develop a pathway for Bell Bay separation which recovers our investment and leaves no ongoing liability; • annually prepare a year-on-year KRA assessment, with specific actions under each KRA to identify how we will improve in the coming year; and • lift audit and compliance capability to the level required by our strategic direction.
Financial	• develop and implement best-practice financial management, which will incorporate all measurement and reporting systems/processes and which will recognise the differences in each business; • develop strategies to support the high-level financial objectives; • develop separate balance sheets and financial reporting for each business; • ensure financial flexibility appropriate to risks ahead; and • develop and implement a plan for other contingent actions for addressing financial stress.

1.3 FACTORS AFFECTING THE BUSINESS ENVIRONMENT

- The hydrological risk associated with the existing balanced supply and demand and the low storage levels up until commencement of Basslink operations
- Satisfactory completion of the Basslink project on time, on budget and to specification
- Introduction of natural gas to Tasmania as a competing energy source
- The rate of growth of the Tasmanian economy and its electricity market
- The impact of increased TUOS charges on the Corporation's cost base going forward
- Developments in the regulation and operation of the National Electricity Market which may affect trading opportunities and returns
- Electricity prices continue to fall in real terms placing greater emphasis on cost control and operational efficiency
- Market structure becomes dominated by integrated businesses and the contract market becomes too thin

- Complex and often lengthy planning and approval processes for renewable developments
- Continued uncertainty over the legislative outcomes arising from the review of the Federal Government's mandatory renewable energy policy and Australia's position on the Kyoto protocols
- Continued restructuring and rationalisation in the NEM and associated counter-party credit issues
- Interest rates remain relatively low and stable
- Hydro Tasmania's actual and perceived environmental performance
- Potential volatility of earnings associated with operating in the NEM
- Insurance markets do not allow appropriate risk transfer
- Managing the Consulting business to improve margins while continuing to support the Corporation's overall goals
- Australia's forthcoming harmonisation with international accounting standards.

1.4 BUSINESS PERFORMANCE TARGETS

1.4.1 Performance Indicators

Performance Indicator		2003/04 Actual	2004/05 Target	2005/06 Target	2006/07 Target	2007/08 Target	2008/09 Target
Financial							
Shareholder Value Added	$M	36.50	31.33	48.49	29.33	35.03	42.83
Profit After Tax	$M	35.50	34.10	56.02	42.09	48.70	58.11
Dividends Paid to Tasmania	$M	43.55	40.00	40.00	*	*	*
Business Expenses Paid to Govt.	$M	36.70	48.55	41.43	39.65	41.86	46.94
Capital Expenditure	$M	132.70	98.74	88.14	79.33	98.07	108.02
Wind Investment	$M	1.00	11.54	28.64	25.00	20.90	25.00
Consulting Contribution to PBT	$M	4.10	4.10	6.51	6.20	7.65	9.66
People							
Lost Time Incident Frequency	No.	3.30	2.35	1.20	0.00	0.00	0.00
Resignation Rate	%	4.10	7.00	7.00	7.00	7.00	7.00

Performance Indicator		2003/04 Actual	2004/05 Target	2005/06 Target	2006/07 Target	2007/08 Target	2008/09 Target
Assets and Processes							
Maintenance Routines Completed	%	77.00	>90	>95	>95	>95	>95
Operation Breaches	No.	0.00	0.00	0.00	0.00	0.00	0.00
Total Generation Assets Availability	%	90.69	90.00	90.00	90.00	90.00	90.00
Start Success	%	98.00	100.00	100.00	100.00	100.00	100.00
Equivalent Forced Outage Factor	No.	0.79	0.40	0.35	0.35	0.35	0.35
Telecomms Network Availability	%	100.00	99.99	99.99	99.99	99.99	99.99
Stakeholders and Environment							
Environmental Incidents	No.	1.00	0.00	0.00	0.00	0.00	0.00
Environmental Compliance	%	100.00	100.00	100.00	100.00	100.00	100.00
Regulatory Breaches	No.	0.00	0.00	0.00	0.00	0.00	0.00

**To be agreed with Department of Treasury & Finance*

Legend to Performance Indicator table:

Shareholder Value Added – The economic profits generated by a business over and above the return required by its capital providers. Calculated as Average Investment x (EROC–WACC) (to be agreed with the Department of Treasury and Finance).

Profit After Tax – Calculated as per standard accounting policies.

Dividends Paid to Tasmania – Cash returns to our shareholder from dividends.

Business Expenses Paid to Government – Cash payment of income tax equivalents and guarantee fees.

Capital Expenditure – Cash outlay for capital projects.

Wind Investment – Equity invested in wind farm developments.

Consulting Contribution to PBT – Consulting contribution.

Lost Time Incident Frequency – Number of lost-time accidents per million hours worked.

Resignation Rate – Shown as voluntary resignations. Does not include redundancies.

Operation Breaches – Number of material breaches of statutory obligations, including corporations law (GBE Act), environmental, OH&S.

Total Generation Assets Availability – Overall average available productive time for generating assets during the time period measured.

Telecomms Network Availability – Amount of time the network is available for use.

Environmental Incidents – Number of incidents adversely affecting the environment.

Environmental Compliance – Extent of compliance with Hydro Tasmania's environmental policies and relevant environmental and water management legislation.

Regulatory Breaches – Number of breaches against REC Policy & Procedures, TEC Regulations, OTTER Determinations, OH&S, Water Management, Environmental Management, Management & Pollution Control, Land Use Planning & Approval Legislation.

1.4.2 Distribution Policy Targets

The financial projections included in this Corporate Plan incorporate phasing out of the existing special dividend arrangements, with the final special dividend to be paid in 2005/2006. As part of these arrangements, the total of ordinary and special dividends paid by the Corporation will equate to at least $40 million per annum up to and including 2005/2006.

The timing of special dividend phase out is appropriate as once the Corporation is operating in the NEM the returns to our shareholder will reflect the Corporation's actual profitability and not be dominated by a fixed return unrelated to the Corporation's actual performance. It also provides a clear, agreed dividend approach which covers the tight operating period through to NEM and assists the Corporation in meeting its obligation to fund our Basslink commitments and to continue our pre-NEM capital expenditure program.

This distribution strategy balances the sharing of profitability between returns to government and retention of funds in the business for investment in growth opportunities.

1.5 OTHER BUSINESS ISSUES

1.5.1 Key Limitations

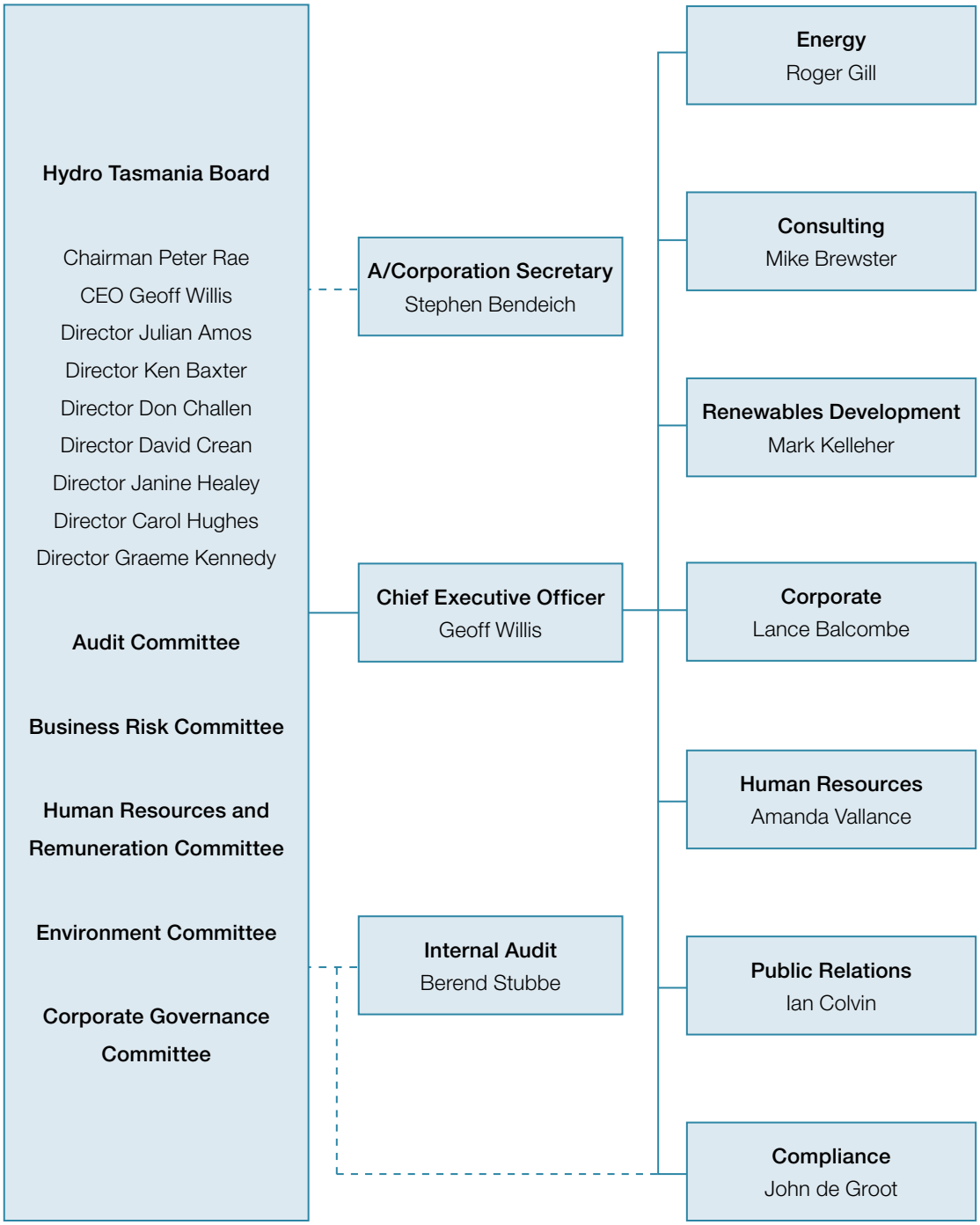
The key limitations facing Hydro Tasmania are:

- prior to commencement of Basslink, the potential adverse implications should there be a period of continued low rainfall;
- the potential uncertainties associated with the review of Federal Government MRET legislation;
- the potential uncertainties associated with the precise rules to apply upon establishment of wholesale electricity market arrangements in Tasmania;
- the potential uncertainties associated with the evolving rules for the National Electricity Market;
- the long-term financial commitments associated with Basslink operation and renewables developments;
- the risks associated with natural gas developments in Tasmania; and
- availability and retention of personnel with commercial acumen, technical expertise and knowledge in key areas.

1.5.2 Other

Growth into new markets and further exploitation of the potential in the Tasmanian market may involve partnerships and strategic alliances with energy suppliers, equipment providers, customers or bankers as is the case with many major infrastructure developments in Australia today. Innovative, but always carefully measured, approaches will be used to follow these strategic directions.

Organisational Structure



The structure depicted here is current as at 31 August 2004

supplementary information

The Hydro-Electric Corporation operates under the *Hydro-Electric Corporation Act 1995* (HEC Act 1995).

It is a Government Business Enterprise subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act 1995).

Responsible Minister

The Hon Bryan Green MHA, Minister for Infrastructure, Energy and Resources, is the Minister to whom the Hydro-Electric Corporation was responsible for the period under report.

Objectives and functions

The Hydro-Electric Corporation's objectives and functions are set out in the Statement of Corporate Intent, the HEC Act 1995 and the GBE Act 1995.

Changes in legislative requirements

There were no significant changes to the principal operating legislation governing the Hydro-Electric Corporation during the period under report.

Pricing policies

In 1999/2000, the Office of the Tasmanian Electricity Regulator (OTTER) was established as an independent pricing regulator. One of its roles was to determine the maximum price for tariff customers. In 1999 OTTER undertook an investigation into energy pricing which set the prices for the period from 1 January 2000 to 31 December 2002. This arrangement was extended to cover the period up to the commencement of the National Electricity Market in Tasmania.

The arrangement has subsequently been further extended by a contract between Hydro Tasmania and Aurora Energy which was authorised by the Australian Competition and Consumer Commission as part of the Tasmanian Government's energy reform package. This contract set in place pricing arrangements up to March 2007.

Staffing policies

Hydro Tasmania maintains a comprehensive set of people management policies which are essential for managing a dynamic workforce.

The policies are considered to be contemporary in human resource management, are reviewed regularly in order to ensure business alignment and are widely publicised through the Hydro Tasmania intranet website.

Key efficiency and effectiveness indicators and monitors

Relevant indicators are recorded throughout the report, in textual and graphical form.

Performance monitoring is also conducted through the system of Board committees: Audit, Business Risk, Human Resources and Remuneration, Corporate Governance and Environment. Responsibilities of these committees are described in the Corporate Governance chapter.

Publications

Publications available to the public, dealing with the functions and activities of Hydro Tasmania, fall into these main categories:

- educational
- public relations
- tourism
- annual and other reports.

The main contact point for these publications is our Hobart office through the Public Relations Group, telephone (03) 6230 5746.

Procurement policy and performance

Hydro Tasmania has continued its policy of sourcing goods and services from Tasmanian businesses where possible.

Where appropriate, work is procured on a competitive basis and a significant proportion of competitively tendered contracts is awarded to Tasmanian firms.

Contracts awarded to interstate or international firms often add significant value to the Tasmanian economy through use of local suppliers and sub-contractors.

Details of contracts worth more than $50,000 which were entered into in the 2003/2004 financial year were as follows.

Contracts	No	$M
Tasmanian-based suppliers	53	56.9
Interstate/overseas suppliers	77	66.9
Total contracts	**130**	**123.8**

Employees

Employee numbers as at 30 June 2004

Energy	364
Renewables Development	21
Consulting	359
Corporate	80
Office of the CEO[1]	27
Public Relations	9
Total, excluding Directors	**860**
Directors[2, 3]	8
Total, including Directors	**868**

1 Includes Human Resources Group. 2 Includes CEO. 3 One vacancy.

financials

"Hydro Tasmania achieved a record financial result of $35.5 million profit after tax, an increase of 5.7 percent on the previous year. A record $132.7 million was invested in capital expenditure and Hydro Tasmania provided returns to the State of Tasmania totalling $80.3 million."

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Statement of Financial Performance

For The Year Ended 30 June 2004

		CONSOLIDATED		PARENT	
		2004	2003	2004	2003
	NOTE	$'000	$'000	$'000	$'000
Revenue from Ordinary Activities	2(a)	439,817	397,455	422,839	390,268
Expenses from Ordinary Activities, excluding Borrowing Costs	2(a)	(295,385)	(245,768)	(278,702)	(237,854)
Borrowing Costs	2(c)	(72,358)	(83,587)	(72,358)	(83,585)
Share of net profit or loss of joint ventures accounted for using the equity method	2(a)	67	-	-	-
Profit from ordinary activities before income tax equivalent expense		**72,141**	**68,100**	**71,779**	**68,829**
Income Tax Equivalent Expense	4	(36,661)	(34,453)	(35,791)	(34,721)
Net Profit		**35,480**	**33,647**	**35,988**	**34,108**
Changes in Reserves	22	1,000	41,744	-	41,744
Total changes in equity other than those resulting from transactions with owners as owners.[1]		**36,480**	**75,391**	**35,988**	**75,852**

1 Owner is the State Government of Tasmania

The Statement of Financial Performance is to be read in conjunction with the notes to and forming part of the accounts included on pages 73 to 112.

Statement of Financial Position

As At 30 June 2004

		CONSOLIDATED		PARENT	
		2004	2003	2004	2003
	NOTE	$'000	$'000	$'000	$'000
Current Assets					
Cash		2,120	1,840	2,073	1,702
Receivables	8(a)	50,780	50,304	44,633	39,893
Investments	9(a)	10,817	37,440	10,817	37,440
Inventories	10	610	547	636	547
Tax Assets	13(a)	8,952	7,583	8,952	7,583
Other	14(a)	3,144	7,166	117,213	49,832
Total Current Assets		**76,423**	**104,880**	**184,324**	**136,997**
Non-Current Assets					
Receivables	8(b)	8,161	-	2,084	-
Investments	9(b)	1,083	19	16	16
Property, Plant and Equipment	11	3,431,346	3,383,607	3,307,062	3,323,192
Intangibles	12	-	1,409	-	-
Tax Assets	13(b)	62,102	59,287	62,102	57,263
Other	14(b)	19,028	19,028	19,028	19,028
Total Non-Current Assets		**3,521,720**	**3,463,350**	**3,390,292**	**3,399,499**
TOTAL ASSETS		**3,598,143**	**3,568,230**	**3,574,616**	**3,536,496**
Current Liabilities					
Payables	15	55,422	73,602	49,213	57,456
Interest-Bearing Liabilities	16(a)	201,038	219,594	201,038	219,594
Tax Equivalent Liabilities	17(a)	7,908	7,836	8,057	6,708
Provisions	18(a)	47,265	41,638	35,555	34,611
Other	19(a)	1,740	4,244	1,739	3,650
Total Current Liabilities		**313,373**	**346,914**	**295,602**	**322,019**
Non-Current Liabilities					
Interest-Bearing Liabilities	16(b)	879,516	816,960	879,516	816,960
Tax Equivalent Liabilities	17(b)	143,032	134,980	143,032	135,120
Provisions	18(b)	186,963	187,044	181,705	180,071
Other	19(b)	19,028	19,028	19,028	19,028
Total Non-Current Liabilities		**1,228,539**	**1,158,012**	**1,223,281**	**1,151,179**
TOTAL LIABILITIES		**1,541,912**	**1,504,926**	**1,518,883**	**1,473,198**
NET ASSETS		**2,056,231**	**2,063,304**	**2,055,733**	**2,063,298**
EQUITY					
Reserves	22	1,872,166	1,881,066	1,871,166	1,881,066
Retained Profits	5	184,065	182,238	184,567	182,232
TOTAL EQUITY		**2,056,231**	**2,063,304**	**2,055,733**	**2,063,298**

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the accounts included on pages 73 to 112.

Statement of Cash Flows

For The Year Ended 30 June 2004

	NOTE	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	PARENT 2004 $'000	PARENT 2003 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from Customers		433,547	403,047	410,048	382,935
Subsidies and Grants Income		1,869	728	1,869	700
Interest Received		162	671	162	663
Outflows:					
Payments to Suppliers and Employees		(227,074)	(161,358)	(204,889)	(141,256)
Interest Paid		(66,984)	(77,201)	(66,979)	(77,201)
Government Guarantee Fee		(3,795)	(3,241)	(3,795)	(3,241)
Income Tax Equivalent Paid		(32,864)	(19,641)	(31,369)	(19,641)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7(c)	**104,861**	**143,005**	**105,047**	**142,959**
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from Sale of Property, Plant and Equipment		1,360	1,487	1,360	1,472
Dividends Received		9	9	9	9
Proceeds from Sale of Business		1,177	-	1,177	-
Outflows:					
Amounts Advanced to Associate		(100)	-	(100)	-
Payments for Property, Plant and Equipment		(134,097)	(95,905)	(66,354)	(56,169)
NET CASH USED IN INVESTING ACTIVITIES		**(131,651)**	**(94,409)**	**(63,908)**	**(54,688)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Non-Government and Government Guaranteed					
Inflows:					
Proceeds from Semi-Government Guaranteed Loans		1,233,800	654,436	1,233,800	654,436
Outflows:					
Intercompany Loans		-	-	(67,838)	(39,786)
Repayments of Semi-Government Guaranteed Loans		(1,180,431)	(640,231)	(1,180,431)	(640,231)
Proceeds from Share Issues		-	1	-	-
Sub Total Non-Government and Government Guaranteed		53,369	14,206	(14,469)	(25,581)
Transactions with Government					
Outflows:					
Repayment of Treasury Loans		(9,369)	(14,993)	(9,369)	(14,993)
Dividend Paid		(43,553)	(60,503)	(43,553)	(60,503)
Net transactions with Government		(52,922)	(75,496)	(52,922)	(75,496)
NET CASH USED IN FINANCING ACTIVITIES		**447**	**(61,290)**	**(67,391)**	**(101,077)**
NET (DECREASE)/INCREASE IN CASH		**(26,343)**	**(12,694)**	**(26,252)**	**(12,806)**
CASH AT BEGINNING OF FINANCIAL YEAR		**39,280**	**51,974**	**39,142**	**51,948**
CASH AT END OF FINANCIAL YEAR	7(a)	**12,937**	**39,280**	**12,890**	**39,142**

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the accounts included on pages 73 to 112.

Notes to and Forming Part of the Financial Statements

For The Year Ended 30 June 2004

1.1 DETAILS OF REPORTING ENTITY

The financial statements and notes to the accounts relate to Hydro-Electric Corporation, which is a Tasmanian Government Business Enterprise and a consolidated reporting entity. The Corporation was established as the Hydro-Electric Commission by the *Hydro-Electric Commission Act 1944*, and was incorporated by the *Hydro-Electric Corporation Act 1995*. The Corporation trades using the business name Hydro Tasmania.

The Corporation's Australian Business Number is 48 072 377 158. Its principal place of business is 4 Elizabeth Street, Hobart, Tasmania.

The Corporation is the electricity generator for the State of Tasmania. The Corporation operates 27 hydro stations, one gas-fired power station and one wind farm.

In 2004, the Corporation established two subsidiary companies. R40 Pty Ltd was incorporated in Victoria on 13 May 2004 for the purposes of acting as a holding company. Cathedral Rocks Wind Farm Pty Ltd was incorporated in Tasmania on 20 November 2003 for the purpose of acting as a wind farm construction company. An existing subsidiary, Taswind Pty Ltd, changed its name during the year to Cathedral Rocks Holdings Pty Ltd. This company and Cathedral Rocks Wind Farm Pty Ltd were transferred on 31 May 2004 to the Cathedral Rocks joint venture. The share of this joint venture is held by R40 Pty Ltd (note 34).

The Corporation sold its equity holding in Hydstra Pty Ltd, including its wholly owned subsidiaries Hydsys Pty Ltd and Hydstra America Inc, on 1 January 2004 (note 33).

At 30 June 2004 the Corporation had 800 full-time equivalent employees (FTEs) including directors (2003: 763 FTEs).

1.2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The significant accounting policies, which have been adopted in the preparation of these financial statements, are:

(a) Basis of Preparation

The financial statements are a general purpose financial report, which have been prepared on an accrual basis under the historical cost convention and, except where stated, do not take into account changing money values or fair values of assets. The financial statements have been prepared in accordance with:

(i) The requirements of the *Hydro-Electric Corporation Act 1995*;

(ii) The requirements of the *Government Business Enterprises Act 1995* (GBE Act) and related Treasurer's Instructions;

(iii) Australian Accounting Standards and Urgent Issues Group Consensus Views;

(iv) Other authoritative pronouncements of the professional accounting bodies; and

(v) Financial disclosure requirements of the *Corporations Act 2001*, where applicable to the operations of the Hydro-Electric Corporation and its subsidiaries, and other requirements of the law.

These accounting policies have been consistently applied by each company in the consolidated group and are consistent with those of the previous year, unless otherwise stated.

(b) Principles of Consolidation

The consolidated financial statements of Hydro Tasmania Group include the parent entity, Hydro-Electric Corporation and its controlled entities. A list of controlled entities is contained in note 33.

The financial statements include the information and results of each controlled entity from the

date on which the Corporation obtains control and until such time as the Corporation ceases to control the entity.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, the effects of all transactions between entities in the Group have been eliminated.

Joint Ventures

A joint venture is either an entity or an operation that is jointly controlled by the consolidated entity. Refer note 1(p).

(c) Receivables

Trade debtors are carried at amounts due. A provision for doubtful debts is raised when doubt as to collection exists (note 8). Debts that are known to be irrecoverable are written off. Non-current receivables are recorded at recoverable amount. In determining recoverable amount expected cash flows have been discounted to their present value.

(d) Inventories

Inventories are carried at the lower of cost or net realisable value (note 10).

(e) Property, Plant and Equipment

The Corporation's generation assets are recorded on a fair value basis. Fair value is determined on the basis of estimated future cash flows using assumptions which are judgmental in nature and calculated by the application of expert knowledge from sources both internal and external to the Corporation (note 11). Fair values are reviewed at the end of each year to ensure that the carrying value of generation assets is not materially different from their fair value.

Non-generation assets, being auxiliary assets, motor vehicles, land and buildings, minor assets and capital work-in-progress, are carried at cost. Minor assets include items such as computers and office furniture.

Property, Plant and Equipment is written down to recoverable amount when carrying amount exceeds recoverable amount. Recoverable amounts are assessed from expected cash flows which are discounted to present values.

The asset revaluation reserve is used to record increments and decrements in the fair value of generation assets.

(f) Depreciation

Depreciation on Property, Plant and Equipment, other than land, is based on remaining useful lives using the straight-line method. In accordance with Australian Accounting Standard AASB 1041, Accounting for the Revaluation of Non-Current Assets, the balance of accumulated depreciation is transferred to the asset account when generation assets are re-valued. Useful lives applying to each class are as follows:

	2004	2003
Generation	2 – 100 years	10 – 100 years
Auxiliary	3 – 50 years	3 – 50 years
Motor Vehicles	4 – 33 years	4 – 33 years
Minor Assets	1 – 10 years	1 – 10 years
Buildings	5 – 50 years	5 – 50 years

(g) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain but can be reliably measured.

Workers Compensation

Prior to 1 July 1998, the Corporation self-insured for workers compensation. The Corporation no longer self-insures. The provision has been retained to ensure adequate provision for claims relating to incidents prior to 30 June 1998, for which the Corporation may be liable. The workers compensation provision is funded to a level that will meet expected workers compensation liabilities (notes 18(a) and (b)).

Onerous contracts

An onerous contract is considered to exist when the Corporation has a contract under which the unavoidable cost of meeting contractual obligations exceeds the economic benefits to be received. Present obligations arising under an onerous contract for rental of gas pipeline capacity are recognised as a provision to the extent that the present obligation exceeds unrecognised assets. The provision is reviewed and adjusted each year based on assessment of future obligations.

(h) Employee Benefits

(i) Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to reporting date, and are calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to apply at the time of settlement including related on-costs (note 20(a)).

(ii) Long service leave

The provision for employee entitlement to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected rates of utilisation based on historical patterns and is discounted using Commonwealth Bond Rates at reporting date (note 20(a)). The provision is allocated to current and non-current portions based on expected utilisation of entitlements in the next twelve months.

(iii) Superannuation

The Retirement Benefits Fund (RBF) is funded by employee and employer contributions. Employee contributions to the fund are transferred to independent RBF administrators while employer contributions are retained internally as a provision.

An internal interest charge, calculated by the application of market-related interest rates, is added to this provision each year after advice from the State Actuary. In accordance with Treasurer's Instructions, the Corporation systematically recognises as an expense the under-provided amount of the RBF provision over the average expected remaining working lives of existing employees (note 20(b)).

Where employees are members of superannuation funds other than RBF, the Corporation makes contributions to complying superannuation funds as directed by the employee.

(i) Taxation

Under the *Government Business Enterprises Act 1995* the Corporation is required to pay an income tax equivalent to the State of Tasmania as if it were a company under Commonwealth income tax laws. As a result the Corporation applies tax effect accounting principles prescribed in AAS3 Income Taxes (note 4) whereby income tax expense is calculated on pre-tax accounting profit after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different from that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities as applicable.

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO) it is recognised as part of the cost of acquisition of the asset or as part of an expense;
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

The Corporation and its wholly owned Australian resident entities have elected to form a tax consolidation group and will therefore be taxed as a single entity. All income tax expense, tax assets and tax liabilities of the group are recognised in the financial statements of Hydro-Electric Corporation (note 4).

(j) Loan Portfolio Restructuring

As part of its ongoing debt management activities, the Corporation periodically restructures its loan portfolio. In doing so, interest costs on the prepayment of loans are recognised in the Statement of Financial Performance in accordance with the recommendations in Accounting Guidance Release Debtors' Accounting for Debt Restructuring - AAG 11 (notes 3 and 6).

(k) Derivative Financial Instruments (notes 23 and 24)

The Corporation enters into derivative financial instruments including interest rate swaps, futures, options, forward rate agreements and foreign exchange contracts to manage financial exposures.

Specific accounting treatments adopted for instruments other than foreign exchange instruments are:

(i) Where derivatives are classified as hedges, which at inception and on an ongoing basis are effective in managing the designated exposure, the gains and losses arising from the derivative transactions are deferred and recognised in accordance with the timing of the recognition of the underlying transactions being hedged;

(ii) Option premiums are amortised over the lives of the options (note 6);

(iii) Accrued interest receivable and payable on interest rate swaps is included in current assets or liabilities in the Statement of Financial Position (note 23(c));

(iv) Realised gains and losses on forward rate agreements, futures contracts and interest rate options are included in borrowing costs in the Statement of Financial Position;

(v) Gains and losses on interest rate futures contracts are amortised to the Statement of Financial Performance over the life of the underlying physical position where the relevant Urgent Issues Group criteria are met. Otherwise gains and losses are written off to the Statement of Financial Performance in the year incurred.

Refer note 1.2(n) for accounting policies with regard to foreign exchange instruments.

(l) Borrowing Expenses

Expenses associated with the raising of loans are deferred and written off over the life of the loan or five years, whichever is shorter.

(m) National Debt Sinking Fund (NDSF) Contributions

Department of Treasury and Finance loans from prior years not required to be repaid to the State are treated as revenue (note 2(a)).

(n) Foreign Currency

All foreign currency transactions are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency amounts at balance date are translated to Australian dollars at exchange rates in effect at that date.

Gains and losses on forward exchange contracts to hedge sales and purchases of goods and services (including capital equipment) are included in the cost of the purchase.

Gains and losses on termination of forward exchange contracts that no longer represent a hedge of an underlying transaction are recognised in the Statement of Financial Performance at the date of termination.

(o) General Insurance Reserve

A reserve has been set up for general insurance purposes. This reserve was set at a level that was expected to meet future costs, and the quantum of the reserve is evaluated every year by the Corporation's Treasury and Corporate Risk Group. Following this evaluation in 2004 it was established that the reserve is no longer required and has been transferred to retained earnings (note 22(b)).

(p) Joint Ventures

Interests in unincorporated joint venture operations are reported in the financial statements by including the Corporation's share of the assets and liabilities of the joint ventures and of any expenses incurred in relation to the joint ventures in their respective classification categories (note 35).

Interests in incorporated joint ventures are reported in the financial statements under the equity method in the consolidated financial statements and the cost method in the parent entity financial statements (note 34).

(q) Restoration Costs

Restoration costs are expensed as incurred or capitalised where appropriate.

(r) Revenue Recognition

Revenue from the sale of electricity is recognised at the time the electricity is provided to the customer and is determined by meter readings. Revenue from sale of Renewable Energy Certificates is recognised at the time of receipt of funds. Consulting revenue is invoiced in accordance with contractual agreements. Accrued Consulting revenue and other revenue is accounted for at the fair value of the consideration receivable.

(s) Commonwealth Compensation – King River and Anthony Power Developments Cost Equalisation

Under the terms of the Memorandum of Understanding between the Commonwealth and the State Government it was agreed that the State would receive $200M (valued in December 1983 dollars) by means of ten annual instalments of $20M. Each instalment was subject to variation based on movements in the Implicit Price Deflator for Gross Private Non-Dwelling Construction Expenditure. The purpose of the funds was to ensure that the cost of replacing 112MW of electricity produced by the King River and Anthony Power Developments was equivalent to the cost of electricity that would have been produced had the Gordon River Development Stage 2 been completed. A total of $275.8M was received and was used to finance the capital expenditure on the King and Anthony schemes. The Memorandum of Understanding between the State and Commonwealth Governments includes an undertaking by the Commonwealth Government that the difference between the energy output of the above two schemes and that which would have been provided by the Gordon River Power Development Stage 2 (i.e. 68MW average) will be the subject of a similar State/Commonwealth agreement when the need for that electricity has been demonstrated.

(t) Basslink Project

The Basslink Services Agreement is accounted for in accordance with AASB 1033, Presentation and Disclosure of Financial Instruments, with the exception of foreign currency and interest rate elements. Hedge gains on the foreign currency portion and hedge losses on the interest rate portion as at finalisation of the Basslink Service Agreement (29 November 2002) have been deferred in accordance with the accounting policy in notes 1.2(k) and 1.2(n). Further detail of the accounting for the Basslink project is contained in note 23.

(u) Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

AIFRS will be introduced in Australia for financial years commencing on or after 1 January 2005. AIFRS will therefore be first applied by Hydro Tasmania in financial statements for the year ended 30 June 2006. Transition rules require that those statements contain comparative figures prepared under AIFRS.

The Corporation has been familiarising itself with these standards as they are released and finalised in order to assess the impact on financial performance and financial position as currently reported. All standards were passed by the AASB in July 2004. Based on the assessment, the Corporation expects that the key differences in the Corporation's accounting policies that will arise from adoption of AIFRS are:

- **Valuation of Non-Current Assets**

  Transitional rules allow the Corporation to either continue with fair value method of non-current asset valuation on transition to AIFRS or to revert to a cost basis of valuation. The latter would require utilisation of the 2004 carrying value of non-current assets as the deemed cost on transition. The Corporation is investigating these options and the differences in definition of fair value and impairment between current standards and AIFRS (AASB 116 and AASB 136).

- **Employee Benefits – Superannuation**

  The Corporation is not currently required to record as a liability the full difference between the RBF plan past service and accrued liabilities and the market value of the RBF assets relevant for those members. As at 30 June 2004 there was $22.2M in unrecorded liability (note 22). Transitional rules upon adoption of AIFRS will require this amount to be immediately recognised as a liability with a corresponding direct charge against retained earnings. In subsequent years, any actuarial gain or loss relating to this plan will be recognised in the Statement of Financial Performance as it arises.

- **Income Tax**

  Currently, the Corporation applies the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AIFRS, the Corporation will be required to adopt the balance sheet approach and identify temporary differences for each asset and liability, rather than identify the timing and permanent differences between taxable income and accounting profit. Adjustments to deferred income tax or future income tax benefit on transition to AIFRS will be charged directly to retained earnings.

- **Derivative Financial Instruments**

  The Corporation is not currently required to recognise derivative financial instruments in the financial statements. AASB 139, Financial Instruments Recognition and Measurement, will require derivative financial instruments and hedging activities to be recorded in the financial statements. Initial recognition of derivative financial instruments on transition will be against retained earnings.

- **Intangible Assets**

  AIFRS will revise accounting policy with respect to capitalisation of development and research costs. These costs are currently capitalised if it is beyond reasonable doubt that they will generate future benefits sufficient to recover the deferred cost. The Corporation is investigating the impact of AASB 138 on future deferral of this expenditure.

2 PROFIT FROM ORDINARY ACTIVITIES

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
(a) DETAILED FINANCIAL PERFORMANCE				
Revenue from Ordinary Activities				
Electricity sales revenue	378,269	354,091	378,269	354,091
Other operating revenue:				
Services to external customers	29,042	30,669	27,943	28,508
Interest received	133	603	133	603
Operating grants and subsidies (note 2(b))	6,617	5,966	6,617	5,938
NDSF Debt Forgiven (note 1.2(m))	37	79	37	79
Other subsidiary revenue	12,208	-	-	-
Subsidiary debt forgiveness	6,472	-	3,530	-
Other	7,039	6,047	6,310	1,049
Total Revenue from Ordinary Activities	**439,817**	**397,455**	**422,839**	**390,268**
Expenses from Ordinary Activities				
Labour	74,683	63,351	73,143	61,829
Materials	55,158	40,352	20,475	24,990
Contributions to RBF provision (note 20(b))	17,200	17,200	17,200	17,200
Depreciation and amortisation (notes 1.2(e), 2(f), and 11)	79,274	80,389	76,312	79,540
Other costs incurred by Consulting Division generating revenue	20,406	12,064	20,406	12,064
Other costs	47,560	27,405	70,064	37,700
Loss on sale of property, plant and equipment (note 2(d))	1,033	4,764	1,031	4,288
Bad and doubtful debts	71	243	71	243
Total Expenses from Ordinary Activities	**295,385**	**245,768**	**278,702**	**237,854**
Borrowing Costs (note 2(c))	(72,358)	(83,587)	(72,358)	(83,585)
Net profit from Joint Ventures (note 35)	67	-	-	-
Profit from Ordinary Activities Before Income Tax Equivalent	**72,141**	**68,100**	**71,779**	**68,829**
Income Tax Equivalent Expense (note 4)	(36,661)	(34,453)	(35,791)	(34,721)
Net Profit	**35,480**	**33,647**	**35,988**	**34,108**

2 PROFIT FROM ORDINARY ACTIVITIES (continued)

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
(b) OPERATING GRANTS AND SUBSIDIES				
The Corporation provides electricity to consumers on the Bass Strait islands below the cost of production as a Community Service Obligation (CSO). The State Government compensated the Corporation for the CSO (note 32).	4,748	5,238	4,748	5,238
Miscellaneous grants and subsidies.	1,869	728	1,869	700
	6,617	5,966	6,617	5,938
(c) BORROWING COSTS				
Loan interest	60,372	66,138	60,372	66,138
Swap interest	1,089	1,070	1,089	1,070
Bank overdraft	2	1	2	1
Government guarantee fee	3,795	3,241	3,795	3,241
Hedging losses/debt management costs (note 6)	7,057	13,093	7,057	13,093
Other financial charges	43	44	43	42
	72,358	83,587	72,358	83,585
(d) LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT				
Proceeds from sale	1,360	1,488	1,360	1,472
Less: cost of sale	2,393	6,252	2,391	5,760
Loss on sale (note 2(a))	1,033	4,764	1,031	4,288
(e) DEPRECIATION EXPENSE				
Generation assets	67,049	62,142	64,188	61,846
Auxiliary	4,424	10,637	4,422	10,635
Motor vehicles	1,316	1,096	1,315	1,085
Minor assets	5,759	5,431	5,721	4,987
Land & buildings	676	987	666	987
Total depreciation (note 11)	79,224	80,293	76,312	79,540
(f) AMORTISATION EXPENSE				
Goodwill	50	96	-	-

3 INDIVIDUALLY SIGNIFICANT ITEMS

Individually significant items included in profit from ordinary activities before income tax equivalent				
Loan portfolio restructure	6,468	11,299	6,468	11,299
Net Individually Significant Items	6,468	11,299	6,468	11,299
Consideration value of loans	386,206	307,921	386,206	307,921
Capital value of loans	393,871	317,646	393,871	317,646
Cost on repurchase	7,665	9,725	7,665	9,725
(Gain)/loss on interest rate swap terminations	(1,080)	1,574	(1,080)	1,574
Early amortisation of (gains)/losses on futures contracts	(117)	-	(117)	-
Total cost of loan portfolio restructure (note 6(i))	6,468	11,299	6,468	11,299

4 INCOME TAX EQUIVALENT EXPENSE

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
The prima facie income tax equivalent on pre-tax accounting profit reconciles to the income tax equivalent in the financial statements as follows:				
Profit from Ordinary Activities	72,141	68,100	71,779	68,829
Income tax equivalent calculated at 30% (2003: 30%) of operating profit	**21,642**	**20,430**	**21,534**	**20,649**
Permanent differences:				
Amortisation of intangible assets	49	96	-	-
Depreciation of revaluation increments	14,624	14,968	14,551	14,968
Non-deductible expenses	-	15	-	15
Research & Development	(111)	(81)	(111)	(75)
Other	387	(175)	356	81
Impact of the tax consolidation system:				
Initial recognition of deferred tax balances of subsidiaries	-	-	1,216	-
Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax consolidated group	-	-	8	-
Derecognition of deferred tax balances of subsidiaries that have left the tax consolidated group during the financial year	158	-	158	-
	15,107	14,823	16,178	14,989
(Over) provision of income tax equivalent in previous year	(88)	(800)	(1,921)	(917)
	15,019	14,023	14,257	14,072
Income tax equivalent expense attributable to operating profit	**36,661**	**34,453**	**35,791**	**34,721**

Tax Consolidation System

Legislation allowing groups, comprising a parent entity and its Australian wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

Hydro Tasmania and its wholly owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 July 2003. The implementation of the tax consolidation system will be notified to the Australian Tax Office at the time of lodgement of the 2004 taxation return. The head entity within the tax consolidation group for the purposes of the tax consolidation system is Hydro-Electric Corporation.

The financial effect of the adoption of the tax consolidation system has been recognised in the financial statements. As a result all income tax expenses, revenues, assets and liabilities of the members of the tax consolidated group are recognised in the financial statements of Hydro-Electric Corporation.

Subsidiary entities within the tax consolidated group will enter into a tax-sharing agreement with Hydro-Electric Corporation. The terms of this agreement are to be determined.

5 RETAINED PROFITS

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Retained profits at the beginning of financial year	182,238	148,592	182,232	148,125
Adjustments to opening retained profits on initial adoption of AASB 1028 Employee Benefits	-	(190)	-	(190)
Adjustments to opening retained profits on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	-	60,503	-	60,503
Net Profit from current period	35,480	33,647	35,988	34,108
Dividend paid	(43,553)	(60,503)	(43,553)	(60,503)
Adjustment to employee benefits already effected in the financial statements	-	190	-	190
Transfer of general insurance reserve	9,900	-	9,900	-
Retained profits at end of financial year	184,065	182,238	184,567	182,232

6 DEBT MANAGEMENT ACTIVITIES

Debt Management Losses/(Gains) and Costs				
(i) Cost of portfolio restructure (note 1.2(j) and 3)	6,468	11,299	6,468	11,299
(ii) Hedging instruments losses/(gains)				
Amortisation of losses on terminated interest rate swaps (note 1.2(k))	556	1,651	556	1,651
Amortisation of losses on futures contracts	28	34	28	34
Amortisation of (gains) on commodity option premiums	-	(39)	-	(39)
Total losses on hedging instruments	584	1,646	584	1,646
(iii) State of Tasmania Treasury loan repayment fee	5	148	5	148
Total hedging losses/debt management costs (note 2(c))	7,057	13,093	7,057	13,093

7 NOTES TO THE STATEMENT OF CASH FLOWS

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
(a) Cash Reconciliation				
For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and short-term money market investments net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash	2,120	1,840	2,073	1,702
Money market investments	10,817	37,440	10,817	37,440
	12,937	39,280	12,890	39,142
(b) Loan Facilities				
Loan facilities through Tasmanian Public Finance Corporation (Tascorp) are unlimited, with the exception of the Committed Standby facility.				
Details of the limit and usage are as follows:				
Committed Standby Facility				
Facility Limit	50,000	50,000	50,000	50,000
Less: used/committed	-		-	-
Balance	50,000	50,000	50,000	50,000
Bank Overdraft				
Facility Limit	1,000	1,000	1,000	1,000
Less: used/committed	-	-	-	-
Balance	1,000	1,000	1,000	1,000
Corporate Mastercard				
Facility Limit	7,500	7,500	7,500	7,500
Less: used	5,082	4,861	5,082	4,861
Balance	2,418	2,639	2,418	2,639
(c) Reconciliation of net cash provided by operating activities to operating profit after income tax equivalent				
Operating profit after income tax equivalent	35,480	33,647	35,988	34,108
Depreciation and amortisation	79,274	80,389	76,312	79,540
NDSF debt forgiven	(37)	(79)	(37)	(79)
(Gain)/loss on sale of fixed assets	1,033	6,218	1,031	5,328
Decrease/(increase) in accrued interest receivable	29	59	29	61
Decrease/(increase) in prepayments	35	(1,223)	(2)	(1,242)
(Increase)/decrease in stores and consumables	(62)	100	(89)	100
(Increase)/decrease in trade receivables	(8,637)	4,560	(6,825)	(6,022)
Increase in accrued interest payable	2,812	788	2,812	788
(Increase)/decrease in deferred taxes	4,090	275	3,057	-
Increase/(decrease) in trade creditors and accrued expenses	(20,993)	1,394	(11,055)	7,578
Increase/(decrease) in employee entitlement provisions	2,805	4,648	2,805	4,668
Net hedging debt management charges	1,601	2,357	1,601	2,357
Net movement in other asset and liability accounts	7,431	9,872	(580)	15,774
Net cash provided by operating activities	**104,861**	**143,005**	**105,047**	**142,959**

7 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(d) Business Disposed

During the financial year, the consolidated entity disposed of the Hydstra Group of entities (note 33). Consideration received in cash was $1.17M and deferred sales proceeds equalled $1.29M for a sum of $2.46M.

Net assets disposed:	**$'000**
Cash	25
Receivables	690
Property, Plant and Equipment	616
Deferred tax assets	170
Tangible Assets	**1,501**
Intangibles	2,269
Payables	(32)
Other liabilities	(680)
Deferred tax liabilities	(12)
Net Assets	3,046

8 RECEIVABLES

	CONSOLIDATED		PARENT	
	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
(a) Current receivables				
Trade receivables	51,070	50,794	44,923	40,383
Less: Provision for doubtful debts (note 1.2(c))	(290)	(490)	(290)	(490)
	50,780	50,304	44,633	39,893
(b) Non-current receivables				
Trade receivables	8,161	-	2,084	-

9 INVESTMENTS

(a) Current investments (at cost)				
Money market investments	10,817	37,440	10,817	37,440
(b) Non-current investments (at cost)				
Investment in joint venture (note 36)	1,067	-	-	-
Investment in shares	16	19	16	16
	1,083	19	16	16

All money market investments have been transacted through the Tasmanian Public Finance Corporation (Tascorp).

10 INVENTORIES

Stores (note 1.2(d))	610	547	636	547

11 PROPERTY, PLANT AND EQUIPMENT

The fair value of the Corporation's Generation assets is determined by calculating the net present values of projected net future cash flows of the existing generation assets by applying appropriate assumptions, based on the best information available for a range of relevant factors, including projections for future inflation, asset lives, cost of capital, sales volumes and prices, expenses and tax rates. Projected future cash flows relating to the use of Basslink for exporting/importing electricity generated by existing assets are included.

The future cash flows from Basslink Inter-Regional Settlement Residues have been calculated using a base case simulation being a combination of published data (AFMA Victorian electricity forward price curve) and internal hydrological data, including commencement storages, Tasmanian load demand forecasts and water value curves.

A nominal after-tax discount rate of 7.56% was applied in calculating the recoverable amount (notes 1.2(e) and 1.2(f)).

	CONSOLIDATED						
	Generation at fair value	Auxiliary at cost	Motor Vehicles at cost	Land & Buildings at cost	Minor Assets at cost	Capital Work in Progress at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross Carrying Amount							
Balance at 30 June 2003	3,273,988	48,144	8,281	15,088	46,254	117,504	3,509,259
Additions	15,207	230	2,564	499	5,806	-	24,306
Disposals	(1,707)	-	(2,206)	(2,290)	(7,347)	-	(13,550)
Other	-	2	-	-	(254)	106,391	106,139
Balance at 30 June 2004	3,287,488	48,376	8,639	13,297	44,459	223,895	3,626,154
Accumulated Depreciation							
Balance at 30 June 2003	62,142	27,335	3,053	1,708	31,414	-	125,652
Disposals	-	-	(1,353)	(1,473)	(7,109)	-	(9,935)
Depreciation expense	67,049	4,424	1,316	676	5,759	-	79,224
Other	-	-	-	-	(133)	-	(133)
Balance at 30 June 2004	129,191	31,759	3,016	911	29,931	-	194,808
Net Book Value							
As at 30 June 2003	3,211,846	20,809	5,228	13,380	14,840	117,504	3,383,607
As at 30 June 2004	3,158,297	16,617	5,623	12,386	14,528	223,895	3,431,346

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Parent						
	Generation at fair value $'000	Auxiliary at cost $'000	Motor Vehicles at cost $'000	Land & Buildings at cost $'000	Minor Assets at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross Carrying Amount							
Balance at 30 June 2003	3,253,988	48,136	8,180	13,979	45,704	78,174	3,448,161
Additions	6,540	230	2,564	499	5,772	-	15,605
Disposals	(1,577)	-	(2,206)	(2,290)	(7,347)	-	(13,420)
Other	-	-	-	-	(254)	48,183	47,929
Balance at 30 June 2004	3,258,951	48,366	8,538	12,188	43,875	126,357	3,498,275
Accumulated Depreciation							
Balance at 30 June 2003	61,846	27,330	3,004	1,708	31,081	-	124,969
Disposals	-	-	(1,353)	(1,473)	(7,109)	-	(9,935)
Depreciation expense	64,188	4,422	1,315	666	5,721	-	76,312
Other					(133)	-	(133)
Balance at 30 June 2004	126,034	31,752	2,966	901	29,560	-	191,213
Net Book Value							
As at 30 June 2003	3,192,142	20,806	5,176	12,271	14,623	78,174	3,323,192
As at 30 June 2004	3,132,917	16,614	5,572	11,287	14,315	126,357	3,307,062

12 INTANGIBLES

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Goodwill	-	1,573	-	-
Less: Accumulated Amortisation	-	(164)	-	-
	-	1,409	-	-

13 TAX ASSETS

(a)	**Current tax assets**				
	Future income tax benefit	8,952	7,583	8,952	7,583
(b)	**Non-current tax assets**				
	Future income tax benefit	62,102	59,287	62,102	57,263

14 OTHER ASSETS

		CONSOLIDATED		PARENT	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
(a)	**Other current assets**				
	Interest accrued	2	31	2	31
	Prepayments	2,020	2,055	2,020	2,019
	Unamortised hedging costs	1,009	4,674	1,009	4,674
	Loans to controlled entities	-	-	114,069	42,703
	Loans to associates	100	-	100	-
	Miscellaneous	13	406	13	405
		3,144	7,166	117,213	49,832
(b)	**Other non-current assets**				
	Deferred hedging settlement	19,028	19,028	19,028	19,028

15 ACCOUNTS PAYABLE

Current payables				
Trade creditors	35,693	56,125	29,539	40,191
Other accrued expenses	1,367	1,927	1,312	1,715
Accrued interest payable	18,362	15,550	18,362	15,550
	55,422	73,602	49,213	57,456

All trade creditors and accrued expenses are unsecured.

16 BORROWINGS

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000

All semi-government loans have been transacted through Tascorp. Loans maturing within one year that had an original term greater than one year and for which there is an existing arrangement with Tascorp to refinance the loan have been classified as non-current liabilities. This is a change in the treatment from the previous year and represents a re-classifiaction of $95.0M of loans (2003: $57.8M). Comparative figures for 2003 have been amended to reflect this treatment.

(a) Current interest-bearing liabilities

Tascorp loans	201,038	219,594	201,038	219,594
	201,038	219,594	201,038	219,594

(b) Non-current interest-bearing liabilities

Tascorp loans	875,525	803,600	875,525	803,600
State of Tasmania Treasury loans	3,991	13,360	3,991	13,360
	879,516	816,960	879,516	816,960

(c) Total interest-bearing liabilities

Tascorp loans	1,076,563	1,023,194	1,076,563	1,023,194
State of Tasmania Treasury loans	3,991	13,360	3,991	13,360
	1,080,554	1,036,554	1,080,554	1,036,554

(d) Discounted & premium loans

The difference between the consideration and the face value is deferred interest (or discount/premium). Deferred interest is written off over the lives of the loans and is an interest component of borrowing. As at 30 June 2004 there were no discounted loans outstanding.

Discounted loans

Discount written off during the year	1,528	1,441	1,528	1,441
Consideration value of loans	-	69,022	-	69,022
Add: Discount to be written off	-	1,528	-	1,528
Face value of loans	-	70,550	-	70,550

Premium loans

Premium written off during the year	(204)	1,105	(204)	1,105
Consideration value of loans	51,833	218,029	51,833	218,029
Less: Premium to be written off	1,833	1,629	1,833	1,629
Face value of loans	50,000	216,400	50,000	216,400

The premium on these loans is written off to the Statement of Financial Performance over the term of the loans and effectively reduces the interest paid.

17 TAX LIABILITIES

		CONSOLIDATED		PARENT	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
(a)	**Current tax liabilities**				
	Income tax equivalent payable	7,908	7,836	8,057	6,708
(b)	**Deferred tax liabilities**				
	Deferred income tax equivalent	143,032	134,980	143,032	135,120

18 PROVISIONS

(a)	**Current provisions**				
	Employee entitlements (note 20)	35,555	34,382	35,555	34,382
	Other current provisions (note 21):				
	Workers compensation	-	229	-	229
	Other	11,710	7,027	-	-
		11,710	7,256	-	229
	Total current provisions	47,265	41,638	35,555	34,611
(b)	**Non-current provisions**				
	Employee entitlements (note 20)	181,675	180,042	181,675	180,042
	Other non-current provisions (note 21)				
	Workers' compensation	30	29	30	29
	Other	5,258	6,973	-	-
		5,288	7,002	30	29
	Total non-current provisions	186,963	187,044	181,705	180,071
(c)	**Total Provisions**	**234,228**	**228,682**	**217,260**	**214,682**

19 OTHER LIABILITIES

(a)	**Other current liabilities**				
	Income received in advance	787	596	786	2
	Deferred hedging gains	442	3,538	442	3,538
	Miscellaneous	511	110	511	110
		1,740	4,244	1,739	3,650
(b)	**Other non-current liabilities**				
	Deferred hedging gain	19,028	19,028	19,028	19,028

20 EMPLOYEE BENEFITS

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
(a) The aggregate employee benefit liability recognised in the financial statements is as follows:				
Provision for employee benefits:				
Current	35,555	34,382	35,555	34,382
Non-current	181,675	180,042	181,675	180,042
Accrued wages & salaries (i)	768	217	768	217
	217,998	214,641	217,998	214,641

(i) Accrued wages & salaries are included in the Current Payables balance as disclosed in note 15 to the financial statements.

(b) Retirement Benefits Fund (RBF) Provision

RBF provides benefits for eligible employees or their spouses on retirement or death.

The Retirement Benefits Fund (RBF) is funded by employee and employer contributions. Employee contributions to the funds are transferred to independent RBF administrators, while employer contributions are retained internally as a provision.

Each year, the State Actuary conducts a valuation of the past service and accrued liabilities within the RBF defined benefit scheme at the reporting date. Any shortfall between the value of these benefits and the market value of RBF assets relevant for those members determines the value of any unfunded superannuation liability, and is shown as a liability in the Statement of Financial Position (note 20(a)).

The funding status of the Corporation's share of the liabilities of the defined benefit scheme at the reporting date, based on actuarial valuations, is summarised as follows:

Retirement Benefits Act 1993				
Vested benefits	315,825	312,728	315,825	312,728
Accrued benefits	300,876	290,844	300,876	290,844
Less: Net market value of plan assets relevant to the Corporation	(78,426)	(73,224)	(78,426)	(73,224)
Deficit (Unfunded past service liability)	222,450	217,620	222,450	217,620
The categories and respective liabilities, as determined by the State Actuary at 30 June 2004, for the different member classes of members of RBF are:				
Contributory members	51,075	44,303	51,075	44,303
Pensioners	160,371	163,422	160,371	163,422
Non-contributory members	-	-	-	-
Retained Benefit Account	11,004	9,895	11,004	9,895
Total liability as at end of reporting period	222,450	217,620	222,450	217,620
Balance of the RBF provision as at end of reporting period	200,295	198,635	200,295	198,635
Amount under provided	(22,155)	(18,985)	(22,155)	(18,985)

In accordance with Treasurer's Instructions, the Corporation is required to systematically recognise as an expense the under-provided amount of $22.2M (2003: $18.9M) over the average expected remaining working lives of existing employees.

20 EMPLOYEE BENEFITS (continued)

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
The year end balance of the RBF provision in the accounts of the Corporation was as follows:				
Balance at beginning of period	198,635	193,971	198,635	193,971
Add: Expense for the current year:				
Contributions for the cost of the current year's service	2,950	3,575	2,950	3,575
Interest added to provision	14,600	15,233	14,600	15,233
Add contribution to underprovision	2,600	1,967	2,600	1,967
Contributions to RBF provision (note 2(a))	17,200	17,200	17,200	17,200
	218,785	214,746	218,785	214,746
Less: Payments made to RBF	(18,490)	(16,111)	(18,490)	(16,111)
Balance at end of reporting period	200,295	198,635	200,295	198,635
Represented by:				
Current	25,641	25,283	25,641	25,283
Non-current	174,654	173,352	174,654	173,352
Balance at end of reporting period	200,295	198,635	200,295	198,635

The Corporation meets the Superannuation Guarantee obligations for all employees.

21 PROVISION RECONCILIATION

	Consolidated	
	Workers Compensation	Trading Losses
	$'000	$'000
Balance at 30 June 2003	258	14,000
Additional provisions recognised	-	2,968
Reductions arising from payments/other sacrifices of future economic benefits	(2)	-
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the Corporation	(226)	-
Balance at 30 June 2004	30	16,968
Current	-	11,710
Non-current	30	5,258
Balance at 30 June 2004	30	16,968

	Parent	
	Workers Compensation	Trading Losses
	$'000	$'000
Balance at 30 June 2003	258	-
Additional provisions recognised	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(2)	-
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the Corporation	(226)	-
Balance at 30 June 2004	30	-
Current	-	-
Non-current	30	-
Balance at 30 June 2004	30	-

(i) The provision for workers compensation represents estimates of claims outstanding relating to the period prior to the disaggregation of the Corporation.

(ii) The provision for trading losses represents unavoidable costs resulting from onerous contracts (for the purchase of goods and services) to the extent that these costs are greater than the realisable value of the resulting output.

22 RESERVES

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
(a) Reserves comprise				
General insurance reserve (note 1.2(o))	-	9,900	-	9,900
Other reserves	1,000	-	-	-
Asset revaluation reserve (note 1.2(e))	1,871,166	1,871,166	1,871,166	1,871,166
	1,872,166	1,881,066	1,871,166	1,881,066
(b) Movements in Reserves and Transfers (to)/from Retained Profits (note 5)				
General insurance reserve (note 1.2(o))				
Amount as at the beginning of the reporting period	9,900	9,900	9,900	9,900
Less transfers to Retained Profits	(9,900)	-	(9,900)	-
Amount as at the reporting date	-	9,900	-	9,900
Asset revaluation reserve (note 1.2(e))				
Amount as at the beginning of the reporting period	1,871,166	1,829,422	1,871,166	1,829,422
Add: Asset revaluation increment	-	41,744	-	41,744
Amount as at the reporting date	1,871,166	1,871,166	1,871,166	1,871,166

23 FINANCIAL INSTRUMENTS

Financial instruments are used by the Corporation to manage exposures relating to its loan portfolio, and its present and future major projects. The administration of all financial instruments, and the monitoring of credit limits, are strictly controlled in accordance with the requirements of the Corporation's Treasury Policy Statement and relevant accounting statements.

(a) Derivative Financial Instruments

Objectives and significant terms and conditions

Interest Rate Swaps

The Corporation has entered into interest rate swap contracts to achieve an interest rate exposure profile that is consistent with the long-term cash flow stability and the interest rate management strategy of the Corporation. All swaps, hedges and identified loans comply with the requirements of UIG 29 Early Termination of Interest Rate Swaps. Interest rate swaps allow the Corporation to swap floating rate exposures to fixed exposures and vice versa.

(i) Debt Portfolio

At 30 June 2004 the fixed rates varied from 4.8% to 6.3% (2003: 4.8% to 6.2%). The floating rates were based on bank bill rates and these varied from 5.5% to 5.6% (2003: 4.6% to 4.8%).

The remaining terms and notional principal amounts of the Corporation's outstanding interest rate swaps contracts at balance date are:

Not later than one year	-	-	-	-
Over one year and up to five years	113,400	142,500	113,400	142,500
Later than five years	40,000	146,500	40,000	146,500
Total	153,400	289,000	153,400	289,000

23 FINANCIAL INSTRUMENTS (continued)

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

(ii) Basslink Project

Basslink Services Agreement

The Basslink Services Agreement (BSA) establishes the rights and obligations of both parties with respect to the monthly facility fee payments between Hydro Tasmania and Basslink Pty Ltd (BPL). The Basslink Facility Fee is a financial instrument with BPL whereby Hydro Tasmania is committed to make payments to BPL over the term of the contract should BPL meet its obligations to keep the link available.

The BSA commences upon successful commissioning of the Basslink project, and is for a term of 25 years.

As consideration for the Basslink Facility Fee, Hydro Tasmania has a right to receive from BPL an amount equal to the Inter-Regional Settlements Residue created by the power flows between Tasmania and Victoria.

Hydro Tasmania has committed to sell the right to receive Inter-Regional Settlements Residue relating to power flows from Victoria to Tasmania.

The link is capable of supporting a continuous load of 480MWh. By entering into the BSA, Hydro Tasmania has effectively swapped its exposure to the Tasmanian electricity market for an exposure to the combined Victorian and Tasmanian electricity markets.

The Basslink Facility Fee obligations include an interest rate exposure similar to that of a floating interest rate exposure on amortising debt.

The remaining term and notional principal for this instrument at balance date is:

Later than five years	599,810	599,810	599,810	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to $306.2M.

Basslink Facility Fee Swap

Derivatives entered into during 2003 for the Basslink project eliminate the financial market risks which arise from the Basslink Facility Fee payments including:

- the foreign exchange risk inherent in the Facility Fee payment obligation (this resulted in a hedge gain recorded on the Statement of Financial Position as a deferred asset and deferred liability of $27.7M which will be brought to account over 25 years)
- the construction interest rate risk inherent in the Facility Fee payment obligation (this resulted in a hedge cost recorded on the Statement of Financial Position as a deferred asset and deferred liability of $8.7M which will be brought to account over 25 years)

The net hedge gain of $19.0M is recorded as a deferred gain in note 19 and deferred settlements in note 14.

The Basslink Facility Fee Swap commences upon successful commissioning of the Basslink project, and is for a term of 25 years.

The inherent fixed interest rate applicable to the Basslink Facility Fee Swap is 7.41%.

The remaining term and notional principal amount for this instrument at balance date is:

Later than five years	599,810	599,810	599,810	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to $306.2M.

Basslink Credit Swaps

While the Basslink Facility Fee Swap transaction has been executed with a single counterparty, Hydro Tasmania has also entered into supplementary interest rate swap transactions with other counterparties to mitigate the potential credit risk associated with a single counterparty.

These swaps are readily tradeable financial instruments.

23 FINANCIAL INSTRUMENTS (continued)

(b) Interest Rate Exposures

The Corporation's portfolio exposure to interest rates on financial instruments at 30 June 2004 was:

CONSOLIDATED							
	Year Ended 30 June 2004						
	Weighted Average effective interest rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Investments	5.4	10,817	-	-	-	-	10,817
Receivables	-	-	-	-	-	59,231	59,231
Other assets	-	-	-	-	-	1,124	1,124
Total Financial Assets		**10,817**	**-**	**-**	**-**	**60,355**	**71,172**
Financial Liabilities							
Bank Overdrafts and Loans	6.1	358,038	94,991	547,525	80,000	-	1,080,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.5	(153,400)	-	113,400	40,000	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.0	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.0	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-				55,422	55,422
Other Liabilities	-	-	-	-	-	953	953
Total Financial Liabilities		**204,638**	**94,991**	**660,925**	**120,000**	**56,375**	**1,136,929**
Net Financial Assets /(Liabilities)		**(193,821)**	**(94,991)**	**(660,925)**	**(120,000)**	**3,980**	**(1,065,757)**

23 FINANCIAL INSTRUMENTS (continued)

PARENT							
Year Ended 30 June 2004							
	Weighted Average effective interest rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Investments	5.4	10,817	-	-	-	-	10,817
Receivables	-	-	-	-	-	47,007	47,007
Other assets	-	-	-	-	-	115,193	115,193
Total Financial Assets		**10,817**	**-**	**-**	**-**	**162,200**	**173,017**
Financial Liabilities							
Bank Overdrafts and Loans	6.1	358,038	94,991	547,525	80,000	-	1,080,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.5	(153,400)	-	113,400	40,000	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.0	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.0	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	49,213	49,213
Other Liabilities	-	-	-	-	-	953	953
Total Financial Liabilities		**204,638**	**94,991**	**660,925**	**120,000**	**50,166**	**1,130,720**
Net Financial Assets /(Liabilities)		**(193,821)**	**(94,991)**	**(660,925)**	**(120,000)**	**112,034**	**(957,703)**

23 FINANCIAL INSTRUMENTS (continued)

CONSOLIDATED							
	Year Ended 30 June 2003						
	Weighted Average effective interest rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Investments	4.7	37,440	-	-	-	-	37,440
Receivables	-	-	-	-	-	50,304	50,304
Other assets	-	-	-	-	-	5,111	5,111
Total Financial Assets		**37,440**	**-**	**-**	**-**	**55,415**	**92,855**
Financial Liabilities							
Bank Overdrafts and Loans	6.1	347,142	137,756	509,215	42,441	-	1,036,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.1	(247,000)	-	117,500	129,500	-	-
- Rec. Fixed/Pay Floating	5.2	42,000	-	(25,000)	(17,000)	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	73,602	73,602
Other Liabilities	-	-	-	-	-	3,648	3,648
Total Financial Liabilities		**142,142**	**137,756**	**601,715**	**154,941**	**77,250**	**1,113,804**
Net Financial Assets /(Liabilities)		**(104,702)**	**(137,756)**	**(601,715)**	**(154,941)**	**(21,835)**	**(1,020,949)**

23 FINANCIAL INSTRUMENTS (continued)

PARENT							
Year Ended 30 June 2003							
	Weighted Average effective interest rate	Floating Interest Rate	Fixed Interest Rate Maturing			Non Interest Bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Investments	4.7	37,440	-	-	-	-	37,440
Receivables	-	-	-	-	-	39,893	39,893
Other assets	-	-	-	-	-	47,814	47,814
Total Financial Assets		**37,440**	**-**	**-**	**-**	**87,707**	**125,147**
Financial Liabilities							
Bank Overdrafts and Loans	6.1	347,142	137,756	509,215	42,441	-	1,036,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.1	(247,000)	-	117,500	129,500	-	-
- Rec. Fixed/Pay Floating	5.2	42,000	-	(25,000)	(17,000)	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	57,456	57,456
Other Liabilities	-	-	-	-	-	3,648	3,648
Total Financial Liabilities		**142,142**	**137,756**	**601,715**	**154,941**	**61,104**	**1,097,658**
Net Financial Assets /(Liabilities)		**(104,702)**	**(137,756)**	**(601,715)**	**(154,941)**	**26,603**	**(972,511)**

23 FINANCIAL INSTRUMENTS (continued)

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000

The Weighted Average Cost of Debt (WACD) incorporates both loans and derivatives (Interest Rate Swaps and Futures Costs) on the books of the Corporation as at the reporting date. These rates are shown below.

Weighted Average Cost of Debt	6.14%	6.31%	6.14%	6.31%

(c) Net Fair Values

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Current Investments: The carrying amount approximates fair value because of the short term to maturity (note 9(a)).

Current Receivables and Payables: The carrying amount approximates fair value (notes 8 and 15).

Forward Foreign Exchange Contracts: The fair value of forward foreign exchange contracts is determined as the recognised gain or loss at balance date calculated by reference to current forward exchange contracts with similar maturity profiles.

Derivative Transactions: These are only used for the purpose of hedging financial exposures that arise. Therefore net fair values should not be assessed in isolation. The overall impact should take account of the underlying exposures being hedged.

Interest rate swaps, forward rate agreements, and futures contracts are valued at current market quoted prices.

Other Current Assets: The carrying amount approximates fair value (note 14). In accordance with AAS33, Presentation and Disclosure of Financial Instruments, prepayments are not included.

Other Current Liabilities: The carrying amount approximates fair value (note 19(a)).

Fixed rate loans, debentures issued, and forward bond contracts are valued at current risk adjusted market rates.

State of Tasmania Treasury Loans: These borrowings have an aggregate carrying amount of $3.99M and an estimated net fair value of $3.89M. The Corporation has not revalued these liabilities to net fair value as it expects to repay the carrying amount fully by holding them to maturity.

Tascorp Loans: These borrowings have an aggregate carrying amount of $1.077B and an estimated net fair value of $1.076B. The Corporation has not revalued these liabilities to net fair value as it expects to repay the carrying amount fully by holding them to maturity.

23 FINANCIAL INSTRUMENTS (continued)

Basslink Services Agreement

The net fair value of the BSA including the estimated revenues from the Inter-Regional Settlements Residues has been calculated using a net present valuation methodology. The future cash flow based on the BSA and estimated Inter-Regional Settlements Residues has been discounted to present value using a nominal discount rate of 10.8% being the pre-tax weighted average cost of capital as at 30 June 2004. The future cash flows from Inter-Regional Settlements Residues have been calculated using a base case simulation being a combination of published data (AFMA Victorian electricity forward price curve) and internal hydrological data, including commencement storages, Tasmanian load demand forecasts and water value curves.

Hydro Tasmania will pay a security deposit (non-interest bearing) of $50M to BPL on commissioning of the link. This will be repaid by means of a reduced facility fee towards the end of the agreement. This has been reflected in the net fair value of the BSA as at 30 June 2004. This inclusion is a change in the method of calculating the BSA net fair value. The comparative amount for 30 June 2003 has been amended to include this amount.

These assumptions are judgmental in nature and calculated by the application of externally sourced data and internal expert knowledge of Hydro Tasmania's hydrological production.

The BSA is not a readily tradeable financial instrument.

Basslink Facility Fee Derivatives

Floating Facility Fee Instrument and Facility Fee Swap

The net fair values of these transactions has been calculated using a net present value methodology based on the contractual obligations using a 25 year forward start market rate of 6.45% as at 30 June 2004 (2003: 5.61%). Neither derivative instrument is a readily tradeable financial instrument.

23 FINANCIAL INSTRUMENTS (continued)

The net fair values of financial assets and financial liabilities as at 30 June 2004 are:

	CONSOLIDATED				PARENT			
	2004 Carrying Amount $'000	2004 Net Fair Value $'000	2003 Carrying Amount $'000	2003 Net Fair Value $'000	2004 Carrying Amount $'000	2004 Net Fair Value $'000	2003 Carrying Amount $'000	2003 Net Fair Value $'000
Financial Assets								
Investments	10,817	10,817	37,440	37,440	10,817	10,817	37,440	37,440
Receivables	59,231	59,231	50,304	50,304	47,007	47,007	39,893	39,893
Other Assets	1,124	1,124	5,111	5,111	115,193	115,193	47,814	47,814
	71,172	71,172	92,855	92,855	173,017	173,017	125,147	125,147
Financial Liabilities								
State of Tasmania Treasury Loans	3,991	3,892	13,360	13,027	3,991	3,892	13,360	13,027
Tascorp Loans	1,076,563	1,076,299	1,023,194	1,047,901	1,076,563	1,076,299	1,023,194	1,047,901
Accounts Payable	55,422	55,422	73,602	73,602	49,213	49,213	57,456	57,456
Other Liabilities	953	953	3,648	3,648	953	953	3,648	3,648
	1,136,929	1,136,566	1,113,804	1,138,178	1,130,720	1,130,357	1,097,658	1,122,032
Financial Instruments								
Basslink Services Agreement - Unfavourable (see below)	-	429,400	-	303,800	-	429,400	-	303,800
Basslink Facility Fee Instruments - Unfavourable	-	245,500	-	253,000	-	245,500	-	253,000
Credit Swaps - Favourable	-	(29,850)	-	(104,407)	-	(29,850)	-	(104,407)
Credit Swaps - Unfavourable	-	29,850	-	104,407	-	29,850	-	104,407
Interest Rate Swaps - Favourable	(126)	(2,531)	(108)	(1,255)	(126)	(2,531)	(108)	(1,255)
Interest Rate Swaps - Unfavourable	112	427	474	6,255	112	427	474	6,255
Forward Foreign Exchange Contracts - Unfavourable	405	405	2,478	2,478	405	405	2,478	2,478
Forward Foreign Exchange Contracts - Favourable	(882)	(882)	(26)	(26)	(882)	(882)	(26)	(26)
	(491)	672,319	2,818	564,252	(491)	672,319	2,818	564,252

23 FINANCIAL INSTRUMENTS (continued)

Investments, State of Tasmania loans and Tascorp loans together with interest rate swaps and forward exchange contracts are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

Basslink Services Agreement

The amount disclosed for the BSA in the above table is limited to the reporting requirements stipulated in AASB 1033, Presentation and Disclosure of Financial Instruments, and does not incorporate all revenue and benefits attributable to the Basslink project. In addition to the revenues included in this calculation the business case considered at the November 2002 Corporation meeting included revenues from fixed contract, spot and contract trading of electricity in the National Electricity Market, together with operational efficiencies, system optimisation, strategic development of renewable generation assets and hydrological risk offsets which exceed this amount.

Total revenues from Basslink have been applied in establishing the fair value of the Corporation's Generation assets. Basslink is not an onerous contract as defined in AASB 1044, Provisions, Contingent Liabilities and Contingent Assets.

23 FINANCIAL INSTRUMENTS (continued)

(d) Liquidity Risk

Liquidity risk arises from the possibility that the Corporation may be unable to settle a transaction on the due date. To manage this risk, the Corporation has adequate stand-by facilities and other funding arrangements in place.

(e) Credit Risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. The Corporation measures credit risk as the positive revaluation of financial instruments plus a potential exposure of investments.

The Corporation reduces this risk by only transacting with counterparties of a high quality. Interest rate swaps are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures. The credit exposure of a financial instrument is its positive market revaluation at the reporting date. A potential exposure, broadly in line with Reserve Bank guidelines, is calculated on all interest rate swaps. The total exposure to interest rate swaps is also limited to a notional allocation as part of the Corporation's capital base.

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Credit Risk Exposure by Instrument Type				
Financial Assets				
Investments and bank balances	14,783	43,779	14,783	43,748
Financial Instruments				
Interest rate swaps	44,578	7,146	44,578	7,146
Foreign exchange contracts	2,172	9,482	2,172	9,482
Basslink Facility Fee Swap	92,412	6,336	92,412	6,336
Total Credit Risk Exposure	153,945	66,743	153,945	66,712
Credit Risk Exposure by Institution Ratings				
Australian Based Institutions				
AA+ to AA- ratings	55,283	59,769	55,283	59,769
A+ to A ratings	92,412	6,336	92,412	6,336
	147,695	66,105	147,695	66,105
Overseas Based Institutions				
AA+ to AA- ratings	6,250	638	6,250	607
Total Credit Risk Exposure	153,945	66,743	153,945	66,712

24 FOREIGN EXCHANGE

	CONSOLIDATED		PARENT	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

Forward Foreign Exchange Contracts

The Corporation enters into Forward Foreign Exchange contracts to buy and sell specified amounts of various foreign currencies in the future at pre-determined rates. The contracts are entered into to hedge certain anticipated purchase and sale commitments denominated in foreign currencies.

It is the Corporation's policy to enter into forward foreign exchange contracts to hedge all foreign currency exposures greater than AUD 100,000 (unless otherwise approved by the Board of the Corporation) as soon as they are recognised.

These hedges are maintained until the exposures expire. These exposures may extend for a number of years.

(a) (Gains)/losses

(i) The balance of realised hedge (gains)/losses relates to forward foreign exchange contracts for the purchase of property, plant and equipment. The contracts for the purchase of these assets have not been finalised as at 30 June 2004 so the realised hedge (gains)/losses on rolled forward foreign exchange contracts are accounted for separately. The Corporation expects the balance of deferred hedge (gains)/losses to be transferred to the underlying assets by 30 June 2005.	(207)	(779)	(207)	(779)
(ii) (Gains)/losses realised on foreign currency hedges and revaluation of open hedges, recognised in net profit during the year ended 30 June 2004.	67	105	67	105

(b) Non-hedged foreign currency balances

The Australian dollar equivalents of foreign currency balances in the accounts which are not effectively hedged, including bank account balances, were as follows:	48	81	48	52

24 FOREIGN EXCHANGE (continued)

c) Open hedge contracts

The settlement dates, dollar amounts to be paid and contractual exchange rates on the Corporation's outstanding open hedge contracts as at 30 June 2004 were:

	2004		2003	
	Consolidated		Consolidated	
	AUD Payables Due	AUD Receivables Due	AUD Payables Due	AUD Receivables Due
	2004	2004	2003	2003
	$'000	$'000	$'000	$'000
Not later than one year	19,927	8,128	48,868	1,460
Later than one year but not later than two years	1,245	640	-	-
Later than two years	1,463	3,004	-	-
	22,635	11,772	48,868	1,460

	2004		2003	
	Parent		Parent	
	AUD Payables Due	AUD Receivables Due	AUD Payables Due	AUD Receivables Due
	2004	2004	2003	2003
	$'000	$'000	$'000	$'000
Not later than one year	19,927	8,128	48,868	1,460
Later than one year but not later than two years	1,245	640	-	-
Later than two years	1,463	3,004	-	-
	22,635	11,772	48,868	1,460

25 SEGMENT REPORTING

The Corporation operates predominantly in the electricty generation business. The Corporation's operations and customers are located predominantly in one geographical segment. The Corporation's principal activity is the generation and sale of electricity and related products.

26 COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
(a) Capital expenditure commitments				
Not later than 1 year	19,950	70,913	17,160	65,580
Over 1 year and up to 2 years	310	13	-	13
Over 2 years and up to 5 years	-	81,503	-	81,503
	20,260	152,429	17,160	147,096

The above items relate to the Corporation's contractual commitments only.

(b) Lease commitments				
(i) Rental Expense:				
Minimum lease payment	3,124	1,873	3,124	1,873
(ii) Future Committed Lease Payments:				
Not later than 1 year	1,924	2,094	1,924	2,094
Over 1 year and up to 2 years	149	270	149	270
Over 2 years and up to 5 years	201	54	201	54
	2,274	2,418	2,274	2,418

The majority of the Corporation's leases are office accommodation rental costs. Contingent rental costs are mostly as a result of periodic escalation of leases by the Consumer Price Index. Since total contingent rentals are immaterial and cannot be reliably determined, they have been excluded from the calculations of lease commitments.

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(c) Other commitments				
Not later than 1 year	40,392	24,370	12,698	8,397
Over 1 year and up to 2 years	23,482	32,748	6,831	4,149
Over 2 years and up to 5 years	9,828	32,133	5,561	8,379
Later than 5 years	365	3,430	365	3,430
	74,067	92,681	25,455	24,355

Other commitments relate primarily to contracts for the supply of gas and provision of gas pipeline capacity to Bell Bay Power Pty Ltd and supply of general goods and services.

27 CONTINGENT LIABILITIES

	CONSOLIDATED		PARENT	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
1. A Supreme Court of Victoria writ was issued on 5 December 2002 claiming damages from Hydro Tasmania in respect to a service contract with Ericsson Australia Pty Ltd . The principal claim concerns an allegation that Hydro Tasmania provided false and misleading tender information and over utilises the service. Hydro Tasmania considers there is little prospect of the claim being successful.				
It is not possible to estimate the financial effect of this claim should it be successful.	-	-	-	-
2. Claims amounting to $500,000 have been received in respect to additional services provided under a service contract for the operation and maintenance of Bell Bay Power Station. Bell Bay Power Pty Ltd considers there is little prospect that the claims will be pursued or successful.	500	-	-	-

28 AUDITORS REMUNERATION

Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the accounts of the Corporation.	173	107	173	107

29 DIRECTORS REMUNERATION

(a) Total salary and benefits paid to directors of the Corporation:				
(i) non-executive directors	399	319	399	319
(ii) executive director	308	326	308	326
	707	645	707	645
(b) Total superannuation payments made on behalf of directors:				
(i) non-executive directors	75	58	75	58
(ii) executive director	11	11	11	11
	86	69	86	69

30 RELATED PARTY INFORMATION

The Directors for the period 1 July 2003 to 30 June 2004 are:

Honourable P E Rae, Mr G L Willis, Dr J J Amos, Mr K P Baxter, Mr D W Challen, Mrs J M Healey, Ms C A Hughes and Mr G A Kennedy.

Dr N L Scheinkestel resigned on 21 April 2004.

Directors and Director related entities

Hon. P E Rae and Mr G L Willis had an interest as chairman and director respectively of Renewable Energy Generators of Australia Ltd.

Mr D W Challen had interests as Chairman of the Electricity Oversight Committee, and as Chairman of Tascorp.

All transactions with related parties were conducted at an arm's length basis in the normal course of business and on commercial terms and conditions.

Sponsorship and contribution fees of $8,500 were paid to director-related entities of Hon. P E Rae and Mr G L Willis.

Interest revenue of $42,208 and interest expense of $59.2M was received and paid to Tascorp, a director-related entity of Mr D W Challen.

Details of directors remuneration and retirement benefits are disclosed in note 29 to the financial statements.

Equity Interests in Controlled Entities

Details of the ordinary shares held in controlled entities are disclosed in note 33 to the financial statements.

Equity Interests in Joint Ventures

Details of interests in joint ventures are disclosed in note 34 to the financial statements.

Transactions within the Wholly Owned Group

The Wholly Owned Group includes:

Parent Entity

Hydro-Electric Corporation

Controlled Entities

Bell Bay Power Pty Ltd

Lofty Ranges Power Pty Ltd

Roaring 40s Wind Pty Ltd

R40 Pty Ltd

Transactions with Other Related Parties

Other related parties include:

Aurora Energy AAPT Pty Ltd (trading as TasTel) (note 34).

All transactions with related parties were conducted in the normal course of business and on commercial terms and conditions and include the sale of electricty to the parent entity.

31 EVENTS SUBSEQUENT TO BALANCE DATE

After due enquiry, the directors are not aware of any matter or circumstances since the end of the financial year that have affected, or may significantly affect, the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in subsequent financial years.

32 COMMUNITY SERVICE OBLIGATIONS

On 1 June 1999, the Government agreed to formally recognise the cost of concessions to eligible pensioners and customers living on Bass Strait islands as Community Service obligations (CSOs), as defined under the *Government Business Enterprises Act 1995*.

During the year ended 30 June 2004, the Government paid the Corporation $4.7M (2003 $5.2M) as reimbursement of cost of providing Community Service Obligations.

33 CONTROLLED ENTITIES

			Percentage of Shares Held	
	Footnote	Country of Incorporation	2004	2003
Parent Entity			%	%
Hydro-Electric Corporation				
Controlled Entities				
Bell Bay Power Pty Ltd	1	Australia	100	100
Lofty Ranges Power Pty Ltd	2	Australia	100	100
Roaring 40s Wind Pty Ltd	3	Australia	100	100
R40 Pty Ltd	4	Australia	100	-
Taswind Pty Ltd	5	Australia	-	100
Hydstra Pty Ltd	6	Australia	-	100
Hydsys Pty Ltd	7	Australia	-	100
Hydstra America Inc	8	United States of America	-	100

Footnotes

1. Bell Bay Power Pty Ltd was registered on 20 December 2001.
2. Lofty Ranges Power Pty Ltd was registered on 26 April 2002.
3. Roaring 40 s Wind Pty Ltd was registered on 21 March 2001.
4. R40 Pty Ltd was registered on 13 May 2004.
5. Taswind Pty Ltd's name changed on 19 May 2004 to Cathedral Rocks Holdings Pty Ltd and was subsequently transferred into the jointly owned Cathedral Rocks group of companies under R40 Pty Ltd
6. Hydstra Pty Ltd was sold on 1 January 2004.
7. Hydsys Pty Ltd was sold on 1 January 2004.
8. Hydstra America Inc was sold on 1 January 2004.
9. The Hydstra Group was sold on 1 January 2004 with an aggregate loss to the consolidated entity of $1.27M.

34 INTEREST IN JOINT VENTURE

			Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights		Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights	
			CONSOLIDATED				PARENT			
Name	Principal Activity	Joint Venture Balance Date	2004 %	2003 %	2004 %	2003 %	2004 %	2003 %	2004 %	2003 %
Aurora Energy AAPT Pty Ltd (trading as TasTel)	Telecom-munications Service Provider	30 June	24.50	24.50	33.33	33.33	24.50	24.50	33.33	33.33
Cathedral Rocks Construction and Management Pty Ltd	Windfarm Construction	30 June	50.00	-	50.00	-	50.00	-	50.00	-
Cathedral Rocks Holdings Pty Ltd	Windfarm Development & Operation	30 June	50.00	-	50.00	-	-	-	-	-

The Hydro-Electric Corporation entered into a joint venture (Aurora Energy AAPT Pty Ltd) with Aurora Energy Pty Ltd and AAPT Limited in the year ending 30 June 2001. The joint venture continues to operate and the investment was written down to nil as at 30 June 2002.

The Hydro-Electric Corporation entered into a joint venture (Cathedral Rocks Construction and Management Pty Ltd) with EHN (Oceania) Pty Ltd in the year ending 30 June 2004. The joint venture was established to construct and project manage a wind farm at Cathedral Rocks, South Australia.

A subsidiary of Hydro-Electric Corporation, R40 Pty Ltd entered into a joint venture (Cathedral Rocks Holdings Pty Ltd) with EHN (Oceania) Pty Ltd in the year ending 30 June 2004. The joint venture was established to develop, operate and maintain a wind farm at Cathedral Rocks, South Australia.

A subsidiary of Hydro-Electric Corporation, Lofty Ranges Power Pty Ltd holds an interest of 50% in the output of an unincorporated Joint Venture operation named SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture. The principal activity of the Joint Venture is to contract for the construction of and to operate mini hydro facilities.

35 JOINT VENTURE OPERATIONS

	CONSOLIDATED	
	2004	2003
	$'000	$'000
Interest in Assets and Liabilities employed in Joint Venture Operations		
Current Assets		
Cash	46	107
Receivables	25	200
Other	-	2
Total Current Assets	**71**	**309**
Non-Current Assets		
Property, Plant and Equipment	1,478	1,403
Total Non-Current Assets	**1,478**	**1,403**
TOTAL ASSETS	**1,549**	**1,712**
Current Liabilities		
Payables	20	370
Total Current Liabilities	**20**	**370**
TOTAL LIABILITIES	**20**	**370**

36 INCORPORATED JOINT VENTURE

Aggregate share of elements relating to incorporated joint ventures		
Share of profit of joint venture entity:		
Revenues from ordinary activities	33	-
Expenses from ordinary activities	-	-
Profit from ordinary activities before income tax expense	33	-
Income tax expense relating to ordinary activities	10	-
Net profit - accounted for using the equity method	23	-
Statement of financial position		
Current assets	7,321	-
Non-current assets	6,838	-
Total assets	14,159	-
Current liabilities	6,494	-
Non-current liabilities	6,642	-
Total liabilities	13,136	-
Net assets - accounted for using the equity method	1,023	-
Share of retained profits		
Share of retained profits at beginning of year	-	-
Share of net profit	67	-
Dividends received/receivable	-	-
Share of retained profits at end of year	67	-
Movements in carrying amount of joint venture entities		
Carrying amount at beginning of year	-	-
Investment in joint venture entities acquired during the year	1,000	-
Share of profit in joint venture entity for the year after tax	67	-
Share of joint venture entities' retained profits at end of year	1,067	-

37 DIVIDEND

The proposed statutory dividend for the financial year ended 30 June 2004 is $22.6M. This was declared by the Board in August 2004.

The proposed special dividend for the financial year is $17.4M.

The payment of a dividend by Hydro Tasmania is determined in accordance with the *Government Business Enterprises Act 1995.* This Act requires the Board of Directors to recommend a dividend within 60 days of the end of the financial year.

SUPERANNUATION DECLARATION

I, Geoff L Willis, hereby certify that the Hydro-Electric Corporation has met its obligations under the Commonwealth's *Superannuation Guarantee (Administration) Act 1992* in respect of any employee who is a member of a complying superannuation scheme to which the Hydro-Electric Corporation contributes.

G.L. Willis
Chief Executive Officer
12 August 2004

STATEMENT OF CERTIFICATION

In the opinion of the directors of the Hydro-Electric Corporation:

a) The financial statements are drawn up so as to give a true and fair view of the results and cash flows for the period ending 30 June 2004 and the state of affairs at 30 June 2004 of the Corporation;

b) The accounts have been made out in accordance with the provisions of the *Government Business Enterprises Act 1995*;

c) At the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

The financial statements have been prepared in accordance with Treasurer's Instructions, Australian Accounting Standards and Urgent Issues Group consensus views.

Signed in accordance with a resolution of the directors:

The Hon. P.E. Rae
Chairman
12 August 2004

G.L. Willis
Chief Executive Officer
12 August 2004

INDEPENDENT AUDIT REPORT

To the Members of the Parliament of Tasmania

HYDRO-ELECTRIC CORPORATION

Financial Report for the Year Ended 30 June 2004

Scope

The financial report and the Director's responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Director's declaration for both the Hydro-Electric Corporation and the consolidated entity for the year ended 30 June 2004. The consolidated entity comprises both Hydro-Electric Corporation and the entities controlled at the year's end or during the financial year.

The Director's are responsible for the preparation and true and fair presentation of the financial report in accordance with Section 52 (1) of the *Government Business Enterprises Act 1995*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I conducted an independent audit in order to express an opinion to the members of the Parliament of Tasmania. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Government Business Enterprises Act 1995*, the Treasurer's Instructions, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Hydro-Electric Corporation's financial position, and of its performance as represented by the results of its operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

The Audit Opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In my opinion the financial report of the Hydro-Electric Corporation:

a) presents fairly the Hydro-Electric Corporation's and the consolidated entities' financial position as at 30 June 2004 and the results of their operations and their cash flows for the year then ended; and

b) in accordance with the Treasure's Instructions issued under the *Government Business Enterprises Act 1995* and applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

19 August 2004
HOBART

Statistical Summary

Water Storages

Storage	Percent full	
	1/7/2004	1/7/2003
Lake Augusta	98	48
Great Lake	24	26
Arthurs Lake	68	61
Lake St Clair	65	23
Lake King William	82	52
Lake Echo	60	36
Tungatinah	86	46
Lake Mackenzie	100	76
Lake Rowallan	100	57
Lake Pedder	61	20
Lake Gordon	32	25
Lake Murchison	100	22
Lake Mackintosh	100	56
Lake Burbury	79	27
TOTAL	**38.2**	**30.5**

Five Year Profile - Revenue Account

	Year Ending 30 June				
	2004 $M	2003 $M	2002 $M	2001 $M	2000 $M
TRADING INCOME					
Electricity Sales					
Key Customers	154.368	161.984	145.440	137.996	134.157
General Sales	223.902	192.107	171.674	160.297	144.403
Interest Received	0.133	0.603	0.479	0.435	0.473
Contribution to Consolidated Fund	-	-	-	0.105	0.120
National Debt Sinking Fund - Debt Forgiven	0.037	0.079	0.105	0.145	0.353
Operating Grants and Subsidies	6.617	5.938	5.410	4.914	4.549
Miscellaneous	37.782	29.557	47.419	27.884	39.380
TOTAL INCOME	**422.839**	**390.268**	**370.527**	**331.746**	**323.435**
Less Expenses					
Labour	73.143	61.829	57.972	47.990	45.178
Materials	20.475	24.990	23.757	11.730	7.047
Other	91.572	54.295	55.374	41.433	45.385
Financial Charges	68.563	80.344	73.869	87.637	97.797
Depreciation of Fixed Assets	76.312	79.540	79.495	76.848	76.502
Superannuation and Retirement Benefits	17.200	17.200	16.750	16.861	15.336
Contribution to Consolidated Fund	-	-	0.011	0.101	0.161
Other Items	-	-	-	-	31.353
Loan Guarantee Fee	3.795	3.241	3.243	2.862	3.000
Income Tax Expense	35.791	34.721	32.252	31.060	(5.547)
TOTAL EXPENSES	**386.851**	**356.160**	**342.723**	**316.522**	**316.212**
NET PROFIT/(LOSS)	**35.988**	**34.108**	**27.804**	**15.224**	**7.223**

Five Year Profile - Balance Sheet

	Year Ending 30 June				
	2004	2003	2002	2001	2000
	$M	$M	$M	$M	$M
Fixed Assets	3,180.705	3,245.020	3,248.517	3,205.384	3,114.557
Deduct Provision for Depreciation	-	-	-	-	-
Fixed Assets (Depreciated)	3,180.705	3,245.020	3,248.517	3,205.384	3,144.557
Capital Work-in-Progress	126.357	78.174	86.540	39.774	36.189
Investments	10.817	37.440	50.373	31.016	20.000
Debtors, Current Assets etc	256.737	175.862	-	65.784	48.892
TOTAL ASSETS	**3,574.616**	**3,536.496**	**3,515.018**	**3,341.958**	**3,249.638**
Borrowings	1,080.554	1,036.554	1,036.554	1,036.554	1,036.559
Provision for Superannuation etc	368.349	356.510	417.015	383.018	373.561
Creditors Others	69.980	80.134	73.535	36.501	38.086
Equity	2,055.733	2,063.298	1,987.914	1,888.885	1,801.432
TOTAL LIABILITIES & EQUITY	**3,574.616**	**3,536.496**	**3,515.018**	**3,341.958**	**3,249.638**

Five Year Profile - Capital Works

	Year Ending 30 June				
	2004	2003	2002	2001	2000
	$M	$M	$M	$M	$M
EXPENDITURE					
Bass Strait Islands	2.4	4.9	1.1	0.3	0.6
Power Stations extension, Wind Farms, Switchyards and communications	106.5	67	54.4	28.0	11.8
Land and Buildings, General Plant Etc	26.1	21.9	9.2	10.1	8.8
TOTAL	**135.0**	**93.8**	**64.7**	**38.4**	**21.3**
FINANCED FROM					
Internal Sources	135.0	93.8	64.7	38.4	21.3
TOTAL	**135.0**	**93.8**	**64.7**	**38.4**	**21.3**

Customers and Sales

	Year Ending 30 June				
	2004	2003	2002	2001	2000
Sales (in million kWh)	10,210	9,987	9,751	9,654	9,563

Employee Numbers

	Year Ending 30 June				
	2004	2003	2002	2001	2000
Staff (including directors)	868	827	796	687	667

Generating System

		As at June 30				
		2004	2003	2002	2001	2000
Mainland Tasmania						
Power Stations						
Hydro	No.	29	28	27	27	27
Thermal	No.	1	1	1	1	1
Wind	No.	1	1			
TOTAL	**No.**	**31**	**30**	**28**	**28**	**28**
Installed Capacity						
Hydro	MW	2,265	2,263	2,262	2,262	2,262
Thermal – Oil	MW	0	120	240	240	240
Thermal – Gas	MW	240	120			
Wind	MW	65	11			
TOTAL	**MW**	**2,570**	**2,514**	**2,502**	**2,502**	**2,502**
Energy Generated						
Hydro	GWh	9,834	9 938	10,133	10,028	9,995
Thermal - Oil	GWh	0	109	62	70	2
Thermal - Gas	GWh	796	351			
Wind	GWh	95	37			
TOTAL	**GWh**	**10,725**	**10,435**	**10,195**	**10,098**	**9,997**
Generation Peak Load	MW	1691	1660	1630	1592	1596
Generation Load Factor	%	72	72	71	72	72
Bass Strait islands						
King Island						
Diesel	MWh	11,589	13,029	12,294	11,487	11,238
Wind	MWh	3,727	2,404	2,080	2,184	2,340
Flinders Island	MWh	4,191	4,135	3,983	3,832	3,698
TOTAL	**MWh**	**19,507**	**19,568**	**18,357**	**17,503**	**17, 276**

(a) Bell Bay unit 2 was converted to gas operation during 2003/04.
(b) During 2003/04 thirty one additional 1.75 MW wind turbines were installed at Woolnorth.
(c) Nieterana 2.2 MW mini hydro was completed during 2003/04.
(d) On King Island two 850 kW wind turbines were added to the wind farm during 2003/04.